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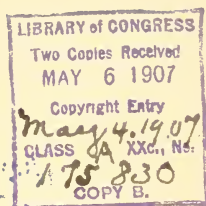
BY

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TO
MY MOTHER

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CO-ORDINATION OF HIGHER EDUCATION

Founder's day address, delivered at Girard College,
Philadelphia, May 20, 1905.

IT has been well said that when Stephen Girard conceived this notable institution, the benefaction was more than a philanthropy, — it was a precedent. He was the first man of great wealth to devote a vast fortune to an educational idea. We cannot measure the influence that act had. The example may have been of as great good in its effect upon the minds of other men of wealth, as has been the value of the great benefaction itself. Certain it is that the precedent then made was the beginning of a long and ever-increasing list of educational gifts. That list has come to be of such proportions that to-day the giving of a million dollars to an institution of learning excites little more than the passing comment of the hour.

In the gift of Stephen Girard there was a special significance. It was not a gift of money alone; there was added to the money

wise judgment, a nobler motive, and a carefully considered plan. Girard gave his brain, the ripe wisdom of his experience, and the broad and helpful charity which years of struggle and sorrow and loneliness had left in his heart. With his money he also gave himself.

In the long line of educational benefactors who have come after him, can there be found one who has done more? Is there one who has more completely vivified his gift with his own thought, his own personality? It is to the value of that particular phase of Girard's giving, the value of the example which he set in the giving of his own ripe judgment, as well as of his money, that I would especially direct your attention.

Learned men are to-day almost as far from agreement as to what constitutes the best education as they were when Aristotle first protested against current beliefs on the subject. "All the centuries of debate and of experiment from the days of the Greek philosophers to the latest meeting of our own educators, have resulted in progress, but certainly not in agreement as to what is education and as to just how it should best be acquired. (Probably the nature of the problem is such that a definite solution never can be reached.) We can hardly expect an answer which will be accepted by all learned

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men. I am inclined to believe that one reason why we have never approached nearer to agreement, however, is because the solution of the problem has been left too largely in the hands of professional educators.

Even though men bear learned degrees and have shown rare ability in acquiring a special sort of knowledge prescribed by a particular system of education, it may not follow that those same learned men are the best judges of what should be the trend of that educational system. If they alone are left to shape the further development of that system, I believe its growth would be less likely in all respects to follow the best lines than would be the case if its development were in a measure shaped by men who have acquired another form of education and have scored success in other fields. The professional educator is quite as likely to become narrow and provincial as is any other specialist. The president of one of our great eastern universities told me a few days ago that he had been making an exhaustive examination of the history of his institution and he had discovered that every great progressive step which the university had taken in one hundred and fifty years had been against the protest and the opposition of the faculty. The trustees from time to

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time brought forward new plans of organization and broader ideas regarding the curriculum. The faculty had in every case voted adversely, and when the changes were made, they were made only by the trustees taking the responsibility upon themselves. Even Alexander Hamilton, with his consummate wisdom, once worked out a plan of reorganization for the university, only to have it meet with the usual vote of emphatic protest from the faculty, but final adoption by the trustees. Now, in the light of years of experience, these changes are seen to have been wise in the main. The unavailing protests of the learned men who made up the institution's faculty are discovered to have sometimes been based on narrow grounds lacking the impersonal view and judgment that should have been brought to bear upon the questions.

This is only one illustration of many that might be given of the tendency toward narrowness on the part of the specialist, of the wisdom there is in larger counsels, and of the value to educational progress that may come with the judgment and experience of men of large affairs and wide interests. Schools are for the education of all sorts of men, and in directing their development there is need of almost as many points of view and of as varied experiences as there

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are classes of men to be educated. It is easily possible for men engaged in the particular work of education to become narrow. Book covers contain much knowledge, but may also shut out from a too close student much wisdom, — much of that sort of wisdom which is gained by experience in the world. And so, I believe that when the example was set to men of wealth, of giving with their money their thought, their experience, their judgment, that example was of great value.

Keen foresight, a shrewd knowledge of humanity, a wise and well-seasoned judgment of the practical value of things, ordinarily go to make up the mental equipment of the man who has made a million dollars which he is ready to devote to some great public good. If the example which Girard set in any measure leads such men fully to use that same wisdom and judgment which enabled them to make the million dollars, in helpfully directing along right lines the manner of its spending, then the example is of value indeed. The worth of a man's benefaction may be vastly increased if, to directing the influences which the gift will set in motion, he will give anything like the thought which he gave first to the acquisition of the money. The gift which is vitalized by the sound judgment of the giver may become

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more valuable because of its aim than because of its amount.

There has been much generous giving without clear thinking. There has been much philanthropy the effectiveness of which has been small because there was lack of wisdom in directing its use. That leads me then to one thought which I wish to present in connection with my subject, and that thought is in reference to the tendency toward waste. The keynote of economic life to-day may be said to be the prevention of waste. The pervading economic tendency of the day, the tendency toward combination and away from useless competition, is a tendency which has been set in motion as a protest against waste. It is, I believe, in its potentiality for the improvement of the condition of men among the foremost of all economic influences ever brought into being.

Not a great deal of thought has been devoted to the idea of waste in education. We have a feeling that all education is good, and whether or not this or that particular educational activity is of the greatest possible efficiency, we still think that it is at least of value and is worthy of encouragement. This loose commendation of all forms of education tends to blind eyes to an educational waste, though they would with clearness see an economic waste. It is true too

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that the disadvantages of educational waste are not so clearly discernible as are the disadvantages of economic waste, though the results may be no less deplorable.

Since the precedent of the great Girard benefaction was established there has followed a golden flood of gifts for educational purposes and in the main the giving has been without discrimination. It has been as if Education were a definite and complete conception, and as if a benefaction laid at Education's shrine, no matter where that shrine might be erected or in whose keeping it might be, was a gift given with rare discrimination and with the certainty that it would be wisely devoted to the noblest uses. Unfortunately that has not always been the case. Educational donations are frequently, I may almost say usually, made with a lack of perspective as to what would be best for the whole educational field. The giver or the recipient may be moved by an ambition to satisfy local or personal pride. Rarely have men made their gifts in such form as would be to the greatest advantage to the proper development of the whole system of higher education. They have not clearly seen how much the system was lacking in co-ordination of effort, how wasteful it was becoming in unnecessary duplication, how needlessly costly it was being made by useless

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and hurtful competition — not competition in the field of merit, but in the field of narrow personal or local ambition.

There has been a lack of co-ordination in the field of higher education. We have failed to evolve a strong central purpose which would serve to give symmetry to educational development. The lack of a central influence, an influence which would hold back growth here and encourage it there, has cost much in wasted effort and in unsymmetrical growth and development.

If the Stephen Girards of to-day, men of clear thinking, of high purpose, of wise judgment, would give the best that is in them of wisdom and advice to aid the educators in creating wisely such a central purpose, the gift which they would thus make would be of greater value than would be their gifts of millions.

Just what they should advise I am, of course neither prepared nor competent to say. I wish only to assert confidence in the great benefit to the whole movement of higher education which would come from the advice such men could give, would they but study the problem with the care with which they study the large affairs of business. There is, however, a hint for a plan of effective action, it seems to me, in the two vast benefactions which have been made by the great philan-

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thropist of our present day. In the ten-million-dollar fund which created the Carnegie Institution there was the idea of a benefaction which should be devoted to the advancement of human knowledge wherever the opportunity could be found. It was not the purpose to build up an additional institution of higher learning, to duplicate the work and compete with the efforts of an already ample number of such institutions, but rather to lend aid wherever aid was most needed for the advancement of human knowledge. In a more recent benefaction a like vast sum has been given for the useful purpose of retiring faculty members who have passed their day of usefulness and who, in the interest of highest efficiency, had best make way for others. The benefits of this latest foundation are intended to apply to the entire body of institutions of higher learning with certain obviously appropriate exceptions.

Is there not in these two benefactions a hint of what might be done in the way of a movement of great importance towards unifying and co-ordinating our whole system of higher education, a movement which would tend to decrease a waste of expenditure and of effort? It hardly needs demonstration, I think, that there is such waste. There is a waste of educational endowments

and of instructors' efforts as well as of the meagre funds and invaluable time of the youths whose college years are being made less fruitful than would be the case had we reached the point of highest possible efficiency in each educational institution.

I believe there might be created a great central fund, the object of which should be so to distribute the income as to give effective force to an impulse toward co-ordination of our whole system of higher education. If such a fund were in the hands of the wisest body of men that could be brought together for that purpose, it could be so used that it would stimulate the educational system to a symmetrical growth. It could be so administered that it would encourage that growth which ought to be encouraged in the judgment of men who were looking at the whole field. It would avoid the mistake of helping institutions to undertake work that was not demanded and for which they were not fitted. It would give great encouragement to the small colleges, but it would be encouragement leading them to do the best possible work in their own particular field, and not stimulating them into attempts to become universities that undertook to accomplish impossible things. On the other hand, it would give encouragement to great universities to broaden and strengthen their ca-

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capacity to do true university work, and it would discourage the efforts of such of those institutions as may have forgotten that numbers alone do not make great seats of learning. It would put emphasis on the error of those institutions that have lowered their standards and admitted to their privileges a mass of illy prepared youths, who, from every point of view, might have better spent some time at a smaller institution where individual needs could have been looked after more efficiently and effectively.

I would provide for the administration of such a fund a board of trustees that had large educational experience and outlook, and I would also have among those trustees men of broad experience in affairs of importance and in the practical matters which concern the average man. Such a fund so administered would put a mighty impress on the whole development of higher education. It might make an impress which would be out of all proportion in importance to the effect which the same fund would have had if, in the first instance, it had been divided among many institutions.

I believe if some present day Girard will make the beginning with such a fund, giving with his benefaction his wisdom, his experience and his judgment, so that the fund really becomes an instrument such as I have

described, he will have rendered a service, the value of which will be beyond measure; he will have created an instrument which will check waste; he will have helped men to see that the highest possible success for an institution of learning is to become a perfectly efficient unit in a perfectly co-ordinated scheme; he will have made men understand that the unit which forms one part in such a system is as creditable as another, that the small college can be made to do as valuable work as the great university, providing each institution fulfils its special purpose in a symmetrical whole.

Since the day when Stephen Girard drew the will which made this institution possible, there have come alterations in the scope and method of educational work which have been fundamental and far-reaching. The seventy-five years which have elapsed since that instrument was written have worked vast change and progress in every department of life, and in none, perhaps, more than in the field of education. The world's conception of a university has been revised within that period, the scope of the curricula has been broadened so as to take in fields of knowledge that were not thought, by Stephen Girard's contemporaries, susceptible of scientific classification. These curricula have now long contained subjects which then no one

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supposed would ever form a part of college training.

We have gained, too, new and greatly improved conceptions of how old subjects should be taught. In the entertaining autobiography which that most useful citizen, Andrew D. White, has recently given to the world, an interesting picture is presented of the shortcomings of American universities at a period even a generation after Girard's death. The university world then was a world of dry text-book recitations, lacking the method and treatment that give subjects a living interest. There was not at that time in an American university a professor of history, pure and simple. It was not until Mr. White had organized Cornell University, and at as late a day as 1870, that there was in any American university a course of lectures on American history. An American student, in order to secure instruction in the history of his country, had, before that time, to go to the lectures of Laboulaye at the College of France.

It is within the period since Girard's death that an entire department of learning has been recognized and created — the department of higher technical education. At first the idea of that sort of education was scouted by the universities, while its value failed of appreciation at the hands of practical men.

A man need not have lived more than the allotted span to remember the scant regard in which higher technical education was held. Practical men pronounced it impractical; learned men regarded its atmosphere, spirit, and scope as something putting it quite outside of the recognized field of higher education. There has been a long step from the attitude of those early days to the present when we find, even in the strongholds of the ultra-conservative university life of Germany, a recognition of technical training which places it on a level with the other learned professions, or when at home we find even intellectually aristocratic Harvard inviting, perhaps vainly, a great technical school to share in its endowments and enjoy the lustre of its honored name.

I have referred to some of these evidences of change and of progress in our views regarding higher education, because I believe that we are even now in the midst of as important changes and as great progress as in those years gone by. The tendency is to make education more practical. We are coming more clearly to recognize that for the many kinds of men there must be many kinds of education. In those early days the engineers who grew up in a school of experience looked with doubt and disfavor for a time upon the man who, by some short cut

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of learning, was attempting to reach a goal ahead of those who were following the ordinary road. So the business man to-day is inclined to look with doubt upon any suggestion that it is possible to have a higher commercial education which will be of practical value. Just as the educators of two generations ago felt that there was no proper place in the sacred grove of learning for a branch of education that smacks so of everyday life as did a course of engineering, so to-day there are many who believe that an attempt to teach the principles of commerce would be bringing into the classical conception of education a subject that has no place there.

The mental equipment of a business man needs to be greater to-day than was ever before necessary. Just as the sphere of a business man's actions has broadened with the advent of rapid transportation, telegraphs, cables, and telephones, so have the needs of a broad understanding of sound principles increased. It was steam processes of transportation and production that really made technical education necessary. The electric dynamo created the demand for technically educated electrical engineers. So the railroad, the fast steamship, the electric current in the telephone and cable, and the great economic fact of gigantic and far-

reaching business combinations, are making the science of business a different thing from any conception of commerce which could have been had when Girard was the most successful of American business men. The enlarged scope of business is demanding better trained men — men who understand principles. New forces have made possible large scale production, and we need men who can comprehend the relation of that production to the world's markets. There has been introduced such complexity into modern business, and such a high degree of specialization, that the young man who begins without the foundation of an exceptional training is in danger of remaining a mere clerk or bookkeeper. Commercial and industrial affairs are conducted on so large a scale that the neophyte has little chance to learn broadly either by observation or by experience. He is put at a single task. The more expert he becomes at it, the more likely it is that he will be kept at it unless he has had a training in his youth which has fitted him to comprehend in some measure the relation of his task to those which others are doing.

It is true that the practical value of technical education is more obvious than is the value of a higher commercial education. A man cannot build a railroad bridge unless

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he is an engineer. Schools can teach engineering, and the value of the technical school is therefore clear. It is less easy to establish the certain value of a higher commercial education, but, for my own part, I believe that that value will in time come to be as fully recognized. We have seen in Germany an example of distinct success of this sort of training. One is beginning to find all over the world positions in business houses filled by Germans who have been selected because of the superior training they have received in the German schools.

If the people of the United States are to make the most of their opportunities, they must employ the most effective methods. In a university course of higher commercial training much can be taught that will be of national value in the development of these opportunities. These schools of commerce, it seems to me, should be attached to universities. The training they offer should be in addition to the general university training. I believe there is a trend in educational development to-day that is in that direction, and that the results which will follow such a development will be of enormous value.

The men who have administered Girard College have had occasion to note an interesting change in an important phase of industrial conditions. When Stephen Girard

planned the institution there was well recognized as a part of our industrial life a system of industrial apprenticeships. That system disappeared. The course of training which it offered no longer exists. Other and, perhaps, less efficient methods have come into vogue.

There has been as marked change in the training which is available for the business man. It is by no means certain that a young Stephen Girard, having in every particular a mental equipment equal to that of the young Frenchman who put out to sea a century ago and more to make his fortune in commerce, could to-day duplicate that success. Conditions have vastly changed. A new order of equipment is demanded. The staunchness of character, the same intrepid will, to-day will play their part as they played it then, but in addition there is now demanded a breadth of technical knowledge, a fund of specialized information, a comprehension of intricate relations, and an understanding of broad principles which the conditions of a century or even a generation ago did not make imperative. I have faith then that some new Girard, recognizing those changed conditions and consequent new demands, will make a benefaction which will help to give us clear-thinking, right-minded and well-equipped youths, from whom may

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be developed future captains of commerce and industry. And if the example which this institution typifies serves to lead that benefactor to give *with* his money the best there is in him of wisdom, experience, and judgment, to insure that the money be most wisely spent, then will there be fresh reason for us to honor the name of Stephen Girard.

A NEW COLLEGE DEGREE

An address delivered at the Convocation of the University of the State of New York in the Senate Chamber at Albany June 29, 1905.

IN this gathering of professional educators I presume nothing less than the traditional bravery of the foolish would lead a layman into a discussion of a new phase of higher education. That would seem to be particularly true in the face of a recent utterance by that revered dean of American learning, President Eliot of Harvard, when the subject chosen is commercial education. President Eliot has recently told us that it is monstrous — the strong adjective is his — that it is monstrous that the common schools should give much time to compound numbers and bank discount, and little time to drawing. In the face of that vigorous declaration against utilitarianism, the layman must be foolhardy indeed who would raise his voice in advocacy of an education especially adapted to men who are to lead commercial lives.

President Eliot has told us further that the main object in every school should be not to provide students with means of earning a livelihood, but to show them how to

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live happy and worthy lives inspired by ideals which exalt both labor and pleasure. That desirable object he seems to believe can be best obtained by teaching children how lines, straight and curved, lights and shades, form pictures, rather than by leading their young minds into the waste places of compound numbers and bank discount.

On any subject connected with education there is no opinion that should be more revered than that of the President of Harvard. His position is unique; his words are the voice of authority. This slighting opinion of bank discount and compound numbers which Dr. Eliot has expressed can, I presume, hardly be taken as representing his unqualified view regarding practical education. Through all time there have been many distinguished utterances by philosophers and teachers as to the meaning of education. These men, however, have rarely agreed in their concepts of the purpose and the aim of education. Since the days of the Greek philosophers there has been little progress toward a generally accepted view of what education should aim to accomplish. When the doctors of learning themselves disagree perhaps a layman may be forgiven for differing from them on some points.

It is certain that the college curriculum has undergone many changes and much de-

velopment even within the period of years during which most of you have been actively connected with educational matters. We have seen great changes, marked broadening and much significant development in the studies generally prescribed as requisite for a college course. Those changes have been sufficiently marked to indicate that there is still, in the minds of those who are directing education, indefiniteness as to what is absolutely best in the way of instruction. The changes which have been going on have been sufficiently rapid and recent to lead one to believe that there may still be important changes, still material broadening, in the courses which our colleges offer. It is logical, therefore, to believe that our system of higher education has not settled into anything like permanent form. The alterations which we have seen indicate that there are more to come. Curricula which are to-day regarded with the highest veneration, may to-morrow, in some, be found lacking and in need of modification. It is in the belief that the college curriculum is still in a period of transition and enlargement that I venture to give my views of one phase of higher education in which I think we are soon to see distinct developments.

The experience which I have had in business, and particularly the experience which

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I have had with young college men in business affairs, leads me to the firm belief that much may properly be asked in the way of a broadened university curriculum. Much could be added that would be of great advantage to the individuals who are to be future leaders in business life. But the added courses would be of value, not alone to those individuals, but in the future development of commerce along right lines and thus of importance in working towards the well-being of the commonwealth.

I believe in the educated man in business. I believe the present college course is not the best that can be devised for the training of men who are to be leaders in commercial and financial life. It is true that we have scientifically classified a few of the principles and underlying laws of commerce and finance, and we teach them more or less well. I believe many more of those laws and principles can be scientifically classified, and can be taught, and that the result of such teaching will make better business men, will qualify men for great responsibility earlier in life, will help solve the problems that new commercial conditions have raised, and will work to our national advantage, not only in the way of our pre-eminence in commerce, but also in the direction of a clearer understanding of the true relation between government

and business, and therefore toward a better discharge of our duties as citizens.

There should be no failure on the part of our educators to appreciate the increasing demands that are, by the changing character of commercial affairs, being laid upon the abilities of business men. The last two decades have witnessed changes that make necessary an entirely new order of ability in business life. Those changes demand a greatly superior training. We have seen the capital employed in business enterprises jump from millions to billions. That change is significant of something much more than mere growth in the magnitude of commercial operations. It is significant of fundamental alteration, in conditions and methods. We have seen struggling lines of railways united into systems and systems into vast nets, all operated under a single management. We have seen whole industries concentrated into a few combinations, and those combinations dominating their especial markets throughout the world. These new conditions have surrounded us with problems for the solution of which experience furnishes neither rule nor precedent. To solve them we need a grounding in principles, an understanding of broad underlying laws.

The world is in great measure becoming a commercial unit. The eye of every business

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man must be farseeing enough to observe all markets and survey all zones. A significant word spoken in any market place or parliament of the world instantly reaches the modern business man, and he should be prepared correctly to interpret its meaning.

Electricity has annihilated the geographies, for it has destroyed the distinctions which gave geographical boundaries their significance. Political distinctions will continue to live, languages and religions will continue to differ, but the peoples of the earth, regardless of political boundaries, of racial differences, of national ambitions, are coming rapidly to form one great commercial unit, one great economic organism. There are no tariff walls against capital. The language talked by money is a universal tongue. The modern business leader, therefore, more than was ever the case before, needs a mind educated to think clearly, needs the ability accurately to trace effect to cause, and needs the training that will enable him to understand the true relation between far separated conditions and widely diverse influences.

With the limitless wealth of resources which we have had in America, the successful conduct of a business enterprise has been a comparatively easy matter. Nothing short of egregious error has been likely to lead to

failure. Any ordinary mistake in judging conditions or in the application of principles has, as a rule, been obliterated by the rapidity of the country's growth and the extent of its industrial and commercial development. If some of the men who have made notable commercial successes had been forced to face the harder conditions that exist in the old world, the measure of their success might have been very different. Had they been confronted by a situation where population was pressing upon the means of subsistence, where all the soil was under cultivation, where the mineral resources were meagre and where there was lacking the wealth of the virgin forests, they would have needed greater abilities and better trained faculties in order to achieve such marked success. We are easily inclined to believe that we have the best business men in the world. I am disposed to agree with that view. But one should not lose sight of the fact that the lavishness of opportunity has brought commercial success to many who have come into the field illy prepared and with small ability. Any one who is familiar with the commercial life of Germany and has seen the successes there built up out of a poverty of resources — successes perhaps not comparing brilliantly with some of our own, until one studies the difficulties that had to be surmounted in

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achieving them, — must perceive there some elements of business ability superior to our own. There has been an astonishing increase of wealth and an enormous expansion in commerce in that nation. No one searching for the fundamental reasons, why German commercial progress is relatively so much greater than that of other European nations, will fail to reach the conclusion that one of the greatest factors in that country's development has been the prompt and intelligent use which has been made of the schools. The Germans have to the highest degree made practical application of their learning. They have brought the true scientific spirit to bear upon their every-day problems. Industry and commerce have both profited in the largest degree. To-day we find in that nation, in spite of its lack of natural resources, pre-eminence in many industrial fields, a striking pre-eminence in foreign commerce, and a superior intelligence in the administration of finance. Those successes can all be, in the greatest measure, traced back to the schoolmaster.

A certain unequalled native ability, coupled with unparalleled natural resources have united to help American business men achieve a measure of material success that has been in many cases, I believe, quite out of proportion to the ability brought to the

work. In American business life the coming years can hardly be expected to offer so many easy roads toward business success as have appeared to the commercial wayfarer at every turn in years past. Our resources, of course, are far from reaching the complete development common in the old world countries. We have nevertheless advanced to a point of development where there will be less chance for success to come as a reward for haphazard and illy directed work. The successes of the future will be for better trained men. That is true not alone because we have in a measure already exploited our great resources, but because the field of commercial activity has so vastly broadened, because there has been such an enormous gain in the magnitude of commercial operations, and because of the increasingly intricate relationships which have resulted from this broadening and this growth. The changed scope, character, and methods of modern business have united to demand men with a training superior to anything that was ever needed before, as the successful commercial leaders of the future. That general training cannot be had in the highly specialized process of the routine work of the office. The practical school of experience is too wasteful as a teacher of general principles. There will, of course, be the exceptional man who

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will come up through that routine training and dominate his field by the force of his intellect, but in the main the new conditions of affairs demand a superior training such as only the schools can give.

I know the majority of business men trained in the school of routine work will doubt the feasibility of teaching in the classroom, in a scientific and orderly fashion, those principles which they have gained only through years of hard experience and which they even yet recognize more by a sort of intuition than by conscious analysis. The engineers of an earlier day thought that blue overalls and not a doctor's gown formed the proper dress for the neophyte in engineering, but we have come long ago to recognize that the road to success as an engineer is through a technical school. So, too, I believe, we will in time come to recognize, though perhaps not to so full an extent, that the road to commercial leadership will be through the doors of those colleges and universities which have developed courses especially adapted to the requirements of commercial life.

When I speak of a higher commercial education I am referring to an ideal education for commercial and financial leaders. An ordinary machinist does not require to be graduated a mechanical engineer. A riveter

of bridge bolts has no need to have taken honors in a course of civil engineering. A bookkeeper, a stenographer, or a bank clerk does not require such a commercial education as I am suggesting. For all those positions there should be special instruction, fitted to the character of the duties. My thought at the moment, however, is directed particularly towards the ideal form of university education for leaders in financial and commercial life.

In advocating a so-called higher commercial education, I would not be regarded as desiring a college course highly specialized and devoted to technical subjects at the expense of a broad cultural training. I would not be understood as advocating changes that will work towards a narrower college education, but rather changes that will work toward a broader one. I am not going to outline specifically what I think the curriculum should be for an ideal higher commercial education. At the present time such a definite outline is impossible. It is impossible because text-books must be written and teachers must be taught before that ideal course can be given. An ideal course such as I have in mind must at best be the development of years. There will be necessary action and reaction between university life and business life. Men must be better trained in the uni-

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versity for their business careers, and then out of that business life, and from among those better trained men, must in turn come men who will bring to the universities that combination of theory and practice, that knowledge of principles combined with familiarity with practical detail, which in the end will make both ideal teachers and ideal business men.

There is little or nothing that has been proven good that will need to be cut from the present college course. I believe the additional work and training that will be necessary in an ideal commercial education can easily be made possible within the present term of university residence by more effective and economical use of time. It will not be necessary to discard present requirements that have been found to be useful and have been proven productive of good results. It will only be necessary to apply to both the years of preparatory work, and to the years of the college course, the business man's keen antipathy to waste. The time can then be saved that will be needed for the mastery of those special lines of study that will differentiate this ideal commercial course from the work which is at present demanded for a college degree.

I believe it is too nearly the truth that a college degree in America to-day does not

mean a great deal more than four years of residence at a college. It certainly does not mean that there have been four full honest years of hard and conscientious work as an absolute requisite for that degree. There is undoubtedly opportunity for a man to put in the fullest measure of industry, but there are few institutions where that full measure is absolutely required before they will give the stamp of their approval in the form of a degree. The schools that are most tenacious of classical tradition should hardly feel proud of the fact that practically the only institutions of learning in the country that absolutely demand a full and honest return of work done in exchange for the honor of their degrees are the technical schools. If as sharp a demand for time well spent were made in all colleges, a long step would be taken toward gaining sufficient room in the curriculum for the studies that will be necessary to make up an ideal commercial course.

I am perfectly aware that among the various conceptions of the true aim of education there are many which agree with that of Dr. Eliot that a school is not for the purpose of providing the student with a means of earning a livelihood. I sympathize with those conceptions which hold that the purpose of education is to create noble ideals, to encourage the growth of the taproots of sound

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character and to cultivate the blossoms of culture, but do not believe that my ideal of a commercial education is necessarily at variance with these ideals. In advocating it I do not think it is necessary to adopt the view of the utilitarians, who believe that education should be merely a course of technical training, fitting the student for some practical work. I would not make the mistake of planning a course of study which would merely be an anticipation of the duties of the counting room. I know there are some who measure the value of the work of a college by its success in being of practical and important advantage to those who are preparing for professional life. They believe that the school which will, in the briefest time, turn a man into an able lawyer, a competent engineer, or a skilful physician, should be regarded as the most successful. People holding that very practical conception of the purpose of education should at least be glad to welcome a new field in which university training may be applied with practical results, but I do not believe it necessary to hold these narrow views in order to agree that higher education may be so shaped as to be of especial advantage to young men looking forward to business careers.

There are some who regard the university as primarily a centre for the diffusion of

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learning. That conception is imperfect, but I should think that those who hold it would recognize a field of the very greatest importance in the work which might be done in the way of disseminating correct views in regard to financial and commercial subjects. If we had in our universities professors capable of a thoroughly scientific understanding of the principles underlying many of the problems of finance and commerce, these men would help us to see distinctly and to think clearly in regard to some of our every-day practices and tendencies. The dissemination of such knowledge would surely be of great value.

There are some whose conception of a university is that its greatest work should be in the field of scientific research. They have a noble ideal. They believe that the development of new knowledge is a work even superior to that of its diffusion. They aim to inculcate a spirit which will lead men to seek truth for its own sake, and to create an enthusiasm for scientific exactness. That idea is not at all out of harmony with the possibilities of a higher commercial education.

In the popular mind the motives of business men are often maligned. I know leaders in the business world who have as little concern for personal reward in what they seek to accomplish as would be the rule with men

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engaged in scientific research. These men are devoted to certain commercial ideals. The making of money happens to be inseparably connected with those ideals, but the making of money is not the great moving force. They are interested in the expansion and development of business, in the discovery of new fields of operation, and in the introduction of improved methods. Their interest in that work is no more ignoble than is the interest of any other specialist. Men who already have more than most ample means are not for personal gain pursuing business with an absorbing intensity. It is empire building with them, perhaps on a small scale or perhaps on a great one. Their lives are not sordid. They may be narrow, as the lives of all specialists are narrow, but the popular idea in regard to men whose lives are given to commerce, the view that these men are devoting their existence to mere money getting, is in great measure erroneous. They have the same high type of imagination which usually marks men who attain eminence in any other line of activity. They are, in a large way or in a small way, as may be determined by their environments, using qualities similar to those that make great statesmen, great scholars, or great scientists. I believe, therefore, that a proper education for the highest work in commercial life

might be so outlined as to be entirely in harmony in its practical application with the ideals of those who conceive that a university scientific habit of mind should be created, and where truth should be sought purely for the love of the truth.

A higher conception, perhaps, than all those others, is a definition which Dr. Hadley gives us. In his view the most profoundly important work which falls to the lot of the American citizen is his duty in guiding the destinies of the country. He believes that if we train the members of the rising generation to do this well, all other things can be trusted to take care of themselves; but if we do not train them to do this well, no amount of education in other lines will make up for the deficiency. Suppose then we accept that as the final test of a university training. How can the duties of citizenship best be taught? What are the requisites for a training in citizenship? I would answer, training in the highest conception of business. Of what does the work of guiding the destinies of the country consist? Consider what are the political problems of the day and of the generation. A great part, nearly the whole of the work of government in a country like ours, is merely the conduct of business on a very large scale. Look over the political platforms of the last

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generation, or study the messages of the presidents, and you will find a very large percentage of the political questions that have been raised are, in their ultimate definition, merely commercial questions. What have they been? The money standard; the control of trusts; the regulation of interstate commerce; railroad rebates; questions affecting the currency and banking; customs duties; schemes of taxation; the building of canals and the creation of plans for irrigation. These and questions like them have made up almost altogether the political questions of the day. They are in the end merely business questions. No purely ethical principle is at stake. We have now no necessity for a discussion of the rights of man. Our government in the main is a great business enterprise and our political problems in the main are economic problems.

In respect to such questions, what sort of training is wanted? Can any one answer them so well as a thoroughly trained business man, granting first that he is governed by the highest ideals of patriotism and honesty? Will not the man who is thoroughly well grounded in the principles of commerce and finance be better qualified to guide the destinies of our country than one who has merely had a training in the love for the beautiful or one who has won class prizes in

Greek declamation? If we adopt President Hadley's view as to the most profoundly important work of the university, I believe that noble ideal is most distinctly in harmony with the conception I have of what is possible in the way of a higher commercial education.

In this connection Dr. Hadley has made one of the wisest statements that has come from any modern educator. He has told us that every change in industry and political methods makes it clearer that mere intelligence is not sufficient to secure wise administration of the affairs of the country, but in addition there must also be developed a sense of trusteeship. There is nothing so much needed in American life to-day, in my opinion, as a cultivation of a sense of trusteeship. That need is by no means confined to political life but is the need standing above all others in commercial life. If the schools can teach it, and in a measure I believe they can, they will do more for commerce than they have done for engineering, or law, or science. If I were to name one thing pre-eminently to be desired as a result of a course of higher commercial education, it would be the cultivation of a proper sense of trusteeship. I do not regard that as an impossible ideal. A truer understanding of the real relation and relative importance of the principles of commerce would give men a far

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clearer view and juster appreciation of the responsibilities of trusteeship. We have men holding positions of great trust in our commercial life to-day who have a childish ignorance in regard to their responsibilities as trustees. These men are honest men, they are well-meaning men, but they have never learned the elemental principles upon which a sense of trusteeship must be built. I am not so optimistic as to believe that a college course could be so designed that those having its benefits would afterward in active life always be imbued with the highest sense of trusteeship, but I do believe that Dr. Hadley uttered a great truth when he pointed out that the cultivation of such a sense is the most important work that a college has to do. If it is important in the education of the American citizen, it is doubly important in the education of that class of American citizens who have to deal with the commercial and financial life of the country.

We are having an illustration to-day of how a clearer understanding of underlying principles of commerce illuminates ethical considerations. A generation ago, before we had thought very deeply or accurately in regard to the nature of common carriers, there were many men who saw nothing ethically wrong in a railroad rebate. Men re-

garded a railroad as a piece of private property and railroad transportation as a commodity which might with perfect propriety be bargained for and sold to the best advantage. The whole community has since been educated to a clearer comprehension of the fundamental principles of transportation, with the result that we have built up ethical standards which absolutely did not exist before. This I believe is an illustration of what might happen in many other directions with a better education embracing principles and underlying laws.

I want to quote again from the President of Yale. Dr. Hadley says: "An intelligent study of science whether it be physics or biology, psychology or history, should train a man in that respect for law which is the best antidote to capricious selfwill on the part of the individual. The student learns that he is in the midst of an ordered world. If he has the root of the matter in him, he thereby gains increasing respect for that order and readiness to become himself a part of it."

That statement we must all recognize as eminently true. Is it not equally true of the study of the science of commerce? Will not such a study train men in that respect for law which is the best antidote to capricious selfwill on the part of the individual? Is it

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not that of which the country is to-day standing in the greatest need? What do we need more than an antidote to capricious self-will on the part of the accidental millionaire? Does not a lack of knowledge of fundamental principles lead to a lack of respect for the great fundamental laws of finance? I believe that is true. I believe when we have reached a point of really making a scientific classification of the principles of finance and commerce, a classification which without question can be made, and when we have developed a class of teachers capable of giving adequate instruction, and so made possible a course of study truly worthy of serving as the basis for a new college degree, we will then have taken a long step in the direction of creating that respect for law of which we are now in need. There will be a respect for economic laws because we will better understand their significance and force. There will be a greater respect for legislative laws because, with wiser legislators, those laws will more surely be based on correct economic principles. If all this is true, then whatever your ideals of education may be, cannot you all unite in helping to evolve a college course which will be worthy of upholding a degree of Master of Commerce?

THE YOUNG MAN'S FUTURE

An address, delivered before the American Institute of Bank Clerks, St. Paul, 1905.

BANKERS are more or less given to prediction, to the making of forecasts and prophecies. They must form opinions in regard to the future. It is a part of their business to have definite ideas as to whether money is to be easy or close, whether business will be active or dull, whether collections will be good or otherwise.

Financial prophecy, however, is full of difficulties. There are many currents and cross-currents to be reckoned with. The whole field of action is so much larger than any man's vision that inadvertently he may leave out of consideration matters of vital importance. The course of affairs may be completely altered by psychological conditions which cannot be weighed in the most carefully prepared tables of statistics. At best the keenest and wisest observers must write "E. & O. E." in large letters after their attempts to divine the financial future. These distinguished bank officers who have dined with you this evening are undoubtedly skilled in such a correct grouping of facts

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as enables them to draw accurate conclusions in regard to the financial future.

There is another line of prophecy, however, which is, I believe, quite as interesting, and far easier. If I were forced to turn seer and to undertake to forecast future events, and could I have my choice of fields, I would keep quite clear of any attempt at forecasting future financial affairs, and would adopt the easier course of attempting to predict the measure of success or of failure that is likely, with added years, to come to a young man. Men ought to be as interesting as markets. I am certain that a prediction can be made regarding the future of a young man, if we have at hand the necessary data, with as much accuracy as we can predict the future of the market. There are many bank officers here who could, I have no doubt, predict, with correctness, the future course of money rates, of bank reserves or of gold imports, but with still greater chances of accuracy, I believe, they could predict the future careers of some of the members of this chapter of the American Institute of Bank Clerks.

I believe it is possible to formulate certain rules and principles which, applied to the data in regard to a young man's capacity, character, and tendencies, will enable one to make an accurate estimate of his chances of

success or his dangers of failure. If it is possible to lay down such rules, then some knowledge of those rules ought to be of value to young men. That is so because it is within the power of each young man to change in a large measure the character of the data in his case. Young men are not foreordained to failure or success. Their future is, in the main, of their own making. If they comprehend that certain characteristics or tendencies which they are forming will have an enormous influence upon their future, if they clearly see that their career is in but small measure a matter of chance, and is in large measure the result of those early formed habits, characteristics, and tendencies, they will be less likely to feel that they must wait for some brilliant opportunity to prove themselves; they will be more likely to understand that success must be won by sincere effort applied to each day's work.

Without doubt there is among the young men who are members of this chapter of the American Institute of Bank Clerks the future president of a great bank. I believe I can pick out the man. I shall not name him; you can do that better than I; but I am going to tell you exactly who he is. This young man has, of course, certain fundamental qualities which are and must be common to every suc-

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cessful man. He started out with good physique, and he has not abused that heritage, for no man can be permanently successful without having an extraordinary capacity for work, — and health and working capacity are one. He has been naturally endowed with a personality which will permit him to work co-operatively with his fellows, a personality which will permit him to win their regard, as well as lead him to recognize merit in others. Then, as a matter of course, he has at least a fair education; he is diligent, capable, and has already a character so well formed that there is every reason to believe that he will have integrity, uprightness, and honor so ingrained in him that men who know him will come to recognize that he is worthy of a trust.

But all those characteristics, necessary as they are, by no means serve to designate the man. Those characteristics are general, and ought to be possessed by every young man.

There are additional characteristics possessed by the young man I am picking out, and they are the ones which will enable me more definitely to designate him.

Given first those sound fundamentals, — good health, good character, at least a fair education, industry, and capacity, — we have then only determined the general class from which we will pick our man. This man I

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am indicating does his regular work well, but he has recognized that he must, as a matter of course, make his ordinary day's work a matter of constant good records. He sees that he is not entitled to special credit, and is not likely to receive extraordinary rewards for merely a record of ordinary good work, and so he has come to recognize that those lines which mark the limits of his daily task are not barriers to his further effort. Those lines merely mark the work he has first to do. He has learned that every occasion that is offered, every opening that he could himself make, which would permit him to break through those lines which mark his special daily duty and give him a chance to do other work, is an opportunity of the greatest importance. That statement is no platitude; data bearing on that phase of a young man's character form one of the most illuminating guides we have in forecasting a career. It tells the measure of the man's coming usefulness; it tells how quickly he will learn the whole detail of his business; it tells whether he has that invaluable spirit of co-operation without which great success cannot be built. The man we are picking out has learned that lesson. He knows that of all things necessary for his development opportunity is one of the most essential, — opportunity to work, opportunity to learn. He has found that

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doing some other man's work in addition to his own when occasion offered, has made him master of some other man's knowledge, and has added greatly to his own capabilities and his value. He has found that his true salary is made up of two parts; that the money he receives is but one part of it, the opportunity to learn is the other. He has not feared he would work too much for the salary he was getting, because he has found that working is learning, and that what he is learning is after all by far the more valuable part of his salary.

When a young man has learned that an added duty is a new opportunity of great value, when he has learned that an added task is something to be welcomed with enthusiasm, he has marked himself for promotion, he has separated himself from those of his fellows who believe in making their services just balance their salaries; he has opened the door of opportunity and his progress is likely to be rapid toward a complete mastery of the details of his business.

I wish I had the eloquence fully to emphasize the strength of my belief in the practical, hard-headed sense of these assertions — to emphasize my faith in the result of an everyday application of them. If I understand correctly any single principle on which success is based, I know that a true one is this:

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Do more than you have to do that you may learn more than you need to know for doing your own simple daily task, and with this broader doing and wider learning you will be laying the substantial foundation that is required for any career of eminence.

There is another lesson of great value which has been learned by this young man whom I am designating to you as a future bank president. He has learned systematically to use the time which is available outside of his regular work. You will find that this young man whom I am singling out has not been satisfied with the progress he has made in the course of his regular work. He may have started with a broad, sound education; but even so, he soon found he would need a more specialized education if he were thoroughly to master the principles of his business. He attacked this problem of a specialized education with the same energy and enthusiasm which he has brought to his daily work at the bank. There has been nothing desultory and intermittent about his method. The work has been systematically planned and constantly carried on. The work in itself has been a pleasure in the doing; in its result it has given to this young man a specialized knowledge and a grasp of principles which in the future will be of

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a value to him greater than he now can comprehend.

There is one more characteristic which the young man possesses and to which I want to call your attention. It is a characteristic which might lead some of you to doubt that he was marked for large success. You may perhaps have thought that he lacked a certain shrewdness, that his ambition for personal advancement was not keen enough, that he was a little slow-going when it came to forcing recognition of his own abilities and hard work. Just there is where you may be wrong. This man's interest in the work has been greater than his interest in himself. To get the thing rightly done has been his thought rather than merely to get the credit for doing it. In travelling along the road leading to success a man should not have his eyes solely on the milestones; in straining to see the milestone, which is too far ahead, one may fail to avoid the obstacle directly in the path. That advice does not alone apply to the progress of the young man. It is a truth that he may well heed, even after he has reached a position of much influence and power. The great man in commerce to-day is the co-operative man, the man who sees clearly the right thing to be accomplished and is willing to sink his individuality to accomplish it; the man who

is more interested in getting the thing done than he is in getting credit for doing it. We must give great prominence to that quality of patience which our future bank president possesses. Patience to wait for personal reward, patience to work co-operatively with others, a patience which rises to self-abnegation before a great work to be done — a self-abnegation which sees only the one thing, and that is the thing to be accomplished, and is willing to sink for the time the gratification of ambition, personal pride, and personal reward.

Here then is the man: He has health, character, ability, industry. More than that, he has learned to welcome new work as new opportunity, and he has learned systematically to use his time outside of his regular work in gaining a specialized knowledge which will give him a thorough grasp of the principles of his business; and then above all that, he has taken greater interest in his work than in himself. He has cared more for getting the thing done right than he has for getting the personal credit of doing it.

I have laid before you the data which will enable you, with almost unerring accuracy, to name the man. Unless there is some defect of personality or some accident of opportunity, the man who best fits this outline will in a decade stand out from among

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his fellows a leader; he will be wearing the honors of distinction and carrying the burdens of responsibility, — aye, and remember that; he will be carrying the burdens of responsibility! Perhaps we need not envy him; perhaps some of you who, though no less faithful, though no less honest, but who will have held to a humbler plane, will be the happier. I am not sure but you will. Certainly you cannot all be bank presidents. We need many privates, and comparatively few generals. Not a few of you, filled with ambition though you may be to-day, will go on year after year in faithful regularity, holding places of great trust, needing strength to resist constant temptation, hampered always by an inadequate income, and never advancing to the highest positions.

When I was honored by an invitation to this banquet, I accepted because I had a particular message I wanted to deliver to you, to you in the ranks. I have a suggestion to make to the American Institute of Bank Clerks which, if it meets with your favor, may, I believe, work out a plan of lasting benefit, both to banking interests and to the banking profession.

I have lately been giving some attention to the subject of old-age pensions. I have been studying with much interest the remarkable system which is now in operation in Ger-

many, a system under which seventeen million of the humbler workers of that nation have been secured against the fear of an old age of penury, a system under which \$150,000,000 is now being annually distributed that the workers of Germany may be made comfortable in sickness and in old age. It is a system smacking nothing of charity, but giving honorable and honestly earned comforts to the whole industrial army of the German Empire.

More recently I have had the pleasure of studying with Mr. Andrew Carnegie this old-age pension problem as it especially affects the noble profession of teaching. His study of the subject has, as you all know, resulted in a magnificent benefaction, in the creation of a fund of \$10,000,000, to pension college professors when they reach a resting point in their careers of usefulness. Public opinion seems pretty generally agreed that no more wise benefaction could have been made by the great philanthropist.

I believe there are other classes entitled to security against an old age of poverty, in degree perhaps less, but in principle as truly as are the great teachers of the country. The man who lives a life of integrity, although subject to constant temptation, who handles with skill, accuracy, and honesty vast sums of money in his lifetime, but re-

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tains but a very modest amount as his salary compensation, the man who from the nature of his profession must keep a spotless record, who may not even take those investment chances that would be proper enough for another man to take, and whose accumulation for old age must be by patient saving and conservative investment — such a man is entitled to consideration. I believe it is wrong that such a man need have a fear that after a lifetime of honest faithfulness, of industrious trustworthiness and most moderate remuneration and opportunity, I say I believe it is wrong that such a man need have a fear that after he has made that record he may still have to face an old age of poverty. It is the strength of that belief that has brought me here and which leads me to presume to make a suggestion to the American Institute of Bank Clerks. I believe that as a body the bank clerks of this country should be made secure in the assurance that a lifetime of faithfulness, industry, and integrity shall be followed by an old age free from want. There will be a satisfaction in that sense of security which every bank clerk can afford to pay something for, and it will be something that every stockholder in any banking institution can well afford to pay something for, and to pay substantially.

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My suggestion, then, is that the American Institute take up this subject, study it in the light of what has been done in other countries, study it in the light of some beginnings which have been made here, confer with bank officers, and finally evolve a plan which will meet with the general approval of the banking interests of the country. And I am here now to say that when you have done that, the institution of which I am an officer, will, if you will permit, have great pride in heading with its name the list of banks accepting the responsibilities of the plan.

I have much faith in the useful purposes which the Institute of Bank Clerks may serve. Such meetings as this cannot but be useful. The spirit of systematic study which is being encouraged by the educational department is, I believe, of immense value. The whole movement can be so directed as to awake new interest in the day's work, and draw out new ambitions. I believe there never was before a keener demand for thoroughly trained men than there is to-day. I believe there were never before greater opportunities for such men, and surely there were never before anything like such great rewards. There is little in the outlook that need be discouraging to the young man of ambition; there is much that should call

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forth from him the best possible display of his powers. The American Institute of Bank Clerks may be made an important instrument in this work, and I hope it is to go on to years of great usefulness.

TRADE SCHOOLS AND LABOR UNIONS

The World's Work, 1906.

WHEN a few years ago the newspapers coined the phrase, "The American Commercial Invasion of Europe," it came into instant popularity. We thought it a most happy way of describing the entrance of the United States into the world's competitive markets. Indeed, for a time, it was a phrase that brought apprehension to foreign nations; for our progress was so rapid, our competition became so severe, that it was difficult to say where the conquest was to stop. Later events, however, demonstrated that it could not go on unhaltingly.

It is true that we are still proud, and have much good reason to be proud, of our success in international competition. We have seen our exports of manufactured products double and double again. We have seen, with justifiable pride, that we are able to make many manufactured articles of commerce more cheaply than any other people in the world can make them. We have combined with the advantage of unexampled supplies of raw material an unequalled genius for doing things on a great scale. With notable clear-

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ness we have seen the economic advantages of great industrial combinations. We have been quick to recognize industrial waste, whether in the form of unneeded labor, of loss of by-products or of unnecessary transportation. To reduce waste in the form of unnecessary labor we have taken full advantage of every ingenious machine which our remarkable talent for mechanical invention could devise. We have brought together industrial units into huge combinations, and have then administered them with a far-seeing wisdom that has made us able to produce certain great staple articles of manufacture so cheaply that our competition has been the despair of other nations.

But after we admit all that, after we grant that we have a giant's crushing grasp on the international industrial markets wherever we have been able to bring into play the combination of our advantages in cheap raw material with the economies of production on a vast scale and with the aids of most ingenious labor-saving machinery — after granting all this, we still must admit that we are a long way from having really gained command of the competitive industrial markets.

It is something of a shock to reflect that practically every victory we have gained in international competition has turned on con-

siderations of cheapness and not on considerations of quality. Our talent for mechanical invention seems unequalled, and it has won us many victories it is true, but, aside from the advantage which that special ingenuity gives us, there are few articles we bring to the international markets upon which we would dare rest our success solely on claims of high-grade workmanship. Wherever we have won success we have as a rule won it because we could manufacture, *en masse*, with wonderful economy. We have been successful because we could make a thing cheaper, — not because we could make it better.

So far as my recollection goes, I have never found in a European shop half a dozen articles of American manufacture that were offered because they were superior to similar articles of European manufacture. They may have been offered because they were more ingenious, they may have been made on such a scale of production, turned out with such economy, in an endless grist from some great automatic machine, that they challenged comparison in cheapness; but it is rare indeed to find in Europe an article of American manufacture that is offered solely on the ground of superior workmanship. If real accuracy of workmanship is wanted, if artistic form and taste are desired, if thor-

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oughly skilled and trustworthy handicraft is sought, it will not as a rule be found in a display of American wares. If we look for a production that has had worked into it some of the soul and the character of the workman who made it we will rarely find it bearing the legend: "Made in America."

We must recognize that the great industrial development which we have seen take place within our memories has had its main foundations built up of something else than of superior manual skill. These foundations are to be found in cheap raw material, in the economies of manufacturing on a vast scale, and in the aids given by the greatest utilization of labor-saving mechanical devices. It has been a perfectly logical and natural consequence that in building a great industrial success upon such factors as these we should for a time sacrifice highly skilled handicraft. We have seen the subdivision of work carried, in our great manufacturing establishments, to the highest imaginable point. As a result we have seen the demand for skill diminish. It has seemed for the time being that all that is necessary is to teach a man to tend a machine, to make him an automatic wheel in the mechanism, and then to ask nothing more of him in the way of brain or breadth of understanding or of thoughtful outlook.

Men rejoiced at the accomplishment of an invention which would do with perfectness tasks which before had required many hands skilled by long training. When the output of such a machine was placed in competition with the hand-made goods of other countries we gathered for a time new laurels in the progress of our commercial invasion. Then our competitors came to study our methods and to appropriate our ideas.

We have carried on this system of specialization and have adopted these mechanical aids to such an extent that in certain lines we can manufacture cheaply enough to have little to fear from competition in any quarter, and we can at the same time pay wages, even to our automatic workers, that are a marvel to the wage earners of other countries.

But, with all these advantages, we are beginning to find that there are countervailing losses. While we have made it possible for the unskilled man to tend a machine and turn out the product with wonderful economy, we are now beginning to find that, in keeping that man confined to tending the machine, in giving him no intellectual interest in his work and no opportunity for any but the narrowest outlook upon the field of industry in which he is engaged, we have unintentionally taken almost certain means

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to prevent his mental and technical development. We have of late heard much of the call of the employer for skilled men to supervise work. We have heard employers marvel that, while the lowest paid ranks of their workmen are fully supplied, they have the greatest difficulty in finding men to fill the higher positions. The reason is of course most obvious. Men need training to become skilful. They must have variety of work if their outlook and technical skill are to have breadth. They must know something of principles if they are to have original ideas of value. I believe that we have failed utterly to grasp the problem of the relation between education and our industrial development and prosperity.

Within the memory of most Americans there has been what amounts to nothing short of a revolution in industrial affairs. We have seen England lose much of her pre-eminence among the industrial nations. We have seen two other nations grow from comparatively small beginnings to places of the first rank. I have indicated what I believe to be the principal elements upon which our own industrial success has been based. But we have seen another nation without the special advantages of raw material which we have enjoyed push forward in a development as rapid as ours, and wrest from others in

the competitive fields the advantage they had long held in security. Germany has had the scantiest aid from nature to make that progress possible. Not only has she had no wealth of raw material such as we have had; she has had no vast homogeneous domestic market, a factor which has been of vital aid in building up our own manufactures. Her people have lacked the peculiar inventive ingenuity which has in many fields of industry been the sole basis for our achievements. Her artisans have not possessed that delicate artistic sense which has made the handiwork of France superior to the obstructions of all tariff walls. Her industries have been forced to grapple with English competitors who were entrenched behind a domination of international markets successfully maintained for generations. But amidst a poverty of natural resources, and from among a people not singularly gifted either with inventive ability or artistic temperament, we have seen emerge in a generation the great industrial forces of the German Empire.

The time is within the memory of most of us when Germany was in large measure an agricultural state winning but meagre return from sterile acres. There were neither rich mines below ground nor exhaustless forests above. Whatever was done by the Germans had to be done in the sweat of their

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brows. Whatever they have accomplished we must admit they have fairly earned, for they have been heirs to few bounties of nature.

I have made a somewhat careful study of Germany's economic success, and in doing that I have become firmly convinced that the explanation of the remarkable German progress is to be traced in the most direct manner to the German system of education. The schoolmaster is the great corner-stone of Germany's remarkable commercial and industrial progress. The school system of Germany bears a relation to the economic situation that is not met with in any other country.

We all know something of the thorough secondary education which the compulsory education laws of Germany insist shall be given to every youth under fourteen. We all know something of the high standing of her universities and the great practical value of her technical schools. There is another feature of the German educational system, however, about which less is known in this country, but which is, I believe, a feature of the most direct importance in shaping Germany's industrial progress.

There is a division of instruction in Germany known as continuation trade schools. These schools are designed for the instruc-

tion of youths engaged in regular industrial employment. They are auxiliary to the ordinary schools, and entirely outside of the scheme for regular academic training or of higher technical instruction. They are for the rank and file of workers, for the privates of the industrial army. The courses are so arranged that they supplement the cultural training that the youths have had in the regular school system, and at the same time supplement the technical routine of the shop or the office.

The students in these trade schools are youths who have completed the regular compulsory educational course and have gone out into the ranks of active industrial and commercial workers. The hours of instruction are so arranged that they fall outside the regular hours of labor. The curriculum is broadly practical. It includes the science of each particular trade — its mathematics or chemistry for instance — and its technology. But it does not stop there. Principles of wise business management are taught. The aim is to prepare a student for the practical conduct of a business. He gains knowledge of production and consumption, of markets and of the causes of price fluctuations. He is put into a position to acquire an insight into concrete business relations, and into trade practices and con-

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ditions. Are not such aims worthy of American schools? What truer democracy can there be than a school system that will point the way to every worker, no matter how humble, by which he may reach a clearer comprehension of the industry in which he is engaged, and with the aid of this knowledge may rise to a position of importance in that industry?

To do all this does not mean the "commercializing" of our educational system. There is no need for opposition even from those who hold that it is not the place of the schools to teach youths how to earn a livelihood. Those educators who lay strongest emphasis upon such phrases as "character formation," "mental discipline," and "harmonious cultivation of the faculties" may continue to hold firmly to those views and at the same time welcome an auxiliary school system which, without curtailing their ideal culture courses, will give after the ordinary period of school life is over the opportunity for valuable practical instruction.

Such an auxiliary system of trade schools would be available for the youth only after he has left the direct influence of our present school system. There are in the United States 10,000,000 youths from fifteen to twenty years old. Three-quarters of that number are not in attendance at any school.

Here are seven and one half millions of young people from whom the students of such trade schools would be drawn.

Surely it needs little training in the economies of industry to comprehend what an unreckonable advantage it would be if a substantial proportion of that seven and one half millions were to be brought within the influence of a new and entirely practical system of education designed to make each pupil a more efficient economic unit.

The present generation of American youth entering industrial or commercial life is to encounter new and in some respects harder conditions. So far as we conceive education to be in any sense a preparation for practical life, there have been laid upon us new demands and fresh responsibilities. The industrial life of this country has in a decade undergone changes more significant than had been encompassed before in a period of two generations. Teachers whose lives have been largely in the classroom are not likely to have comprehended fully the true significance of the development of the forces of combination. There has been combination in the field of labor as evidenced in the growing power of unionism; combination in the domain of capital as manifested in the trusts; concentration in the control of in-

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dustries, in the subdivision of labor, and in the aggregation of wealth.

This display of the forces of combination, equally significant in the fields of labor and of capital, has brought changed conditions in the problem of human industrial endeavor. The welfare of the people and the position which our country is to maintain among nations both depend on no single thing more than on the recognition of these changed conditions by our educators. They must recognize the new demands of the times. They must provide the educational requisites which these changed conditions make imperative.

The forces of combination — the labor union and the trusts — are united and are working in harmony to accomplish at least one thing. They are united in a tendency to make commercial or industrial automations of a great percentage of our population. They both tend to subdivide labor, and thereby to limit the opportunity to acquire a comprehension of broad principles. They both tend to circumscribe the field of the apprentice, narrowing his opportunity, forcing him into petty specialization and restricting his free and intelligent development. All this is placing us in grave danger of evolving an industrial race of automatic workers, without diversity of skill, without

an understanding of principles, and without a breadth of capability.

There is but one power that can counteract that tendency — the schoolmaster. Youths who can gain from their daily work only that narrow, routine, technical experience — which in the main is all that the conditions of modern industry offer — have a right to something more. They have a right to opportunity for a practical education. As modern conditions narrow their technical training, those same conditions broaden the opportunity for the man who does acquire knowledge which will give him a grasp of more than a single detail of his business.

The mental equipment of a business man needs to be greater to-day than was ever before necessary. Just as the sphere of a business man's activity has broadened with the advent of rapid transportation, telegraphs, cables, and telephones, so has the need of a broad understanding of sound principles increased. It was steam processes of transportation and production that really made technical education necessary. The electric dynamo created the demand for technically educated electrical engineers, and the railroad, the fast steamship, the electric current in telephone and cable and the great economic business combinations are making the science of business a different thing from

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any conception of commerce which would have existed two generations ago. The enlarged scope of business is demanding better trained men — men who understand principles. New forces have made possible large-scale production, and we need men who can comprehend the relation of that production to the world's markets. There has been introduced such complexity into modern business, and such a high degree of specialization, that the young man without the foundation of an exceptional training is in danger of remaining a mere clerk or bookkeeper. Commercial and industrial affairs are conducted on so large a scale that the neophyte has little chance to learn broadly either by observation or by experience. He is put at a single task. The more expert he becomes at it the more likely it is that he will be kept at it, unless he gains a training which fits him to comprehend in some measure the relation of his task to those tasks which others are doing.

I do not believe it is enough for us to say that we will give to our youths the best education possible to train them as intelligent citizens. I do not believe it is enough to give them a few years of elementary education and when they go forth to actual work, offer them no educational aid or training to better comprehend the principles in the

field of industry in which their lives are cast.

Many noble teachers have held a beautiful theory that their work should be devoted to building up character and culture in a youth. They would so garb him in an armor of sweetness and light, so instil into his mind the love of the beautiful and build up generally by cultural instruction his mental characteristics that for such a youth any labor would be dignified, and he would be provided with springs of learning and appreciation from which, without regard to material surroundings, he could always drink with the deepest satisfaction. That is the ideal of those who believe that we must beware of commercializing our educational system, who believe that we should aim at the training of character, the giving of culture, and waste none of the youth's precious time with instruction in trades and occupations. It is a noble ideal, but we must recognize the fact that a boy set to forge such an ideal armor before he is fifteen years of age will find it an imperfect protection against the difficulties of modern industrialism.

What I believe we need is, not a radical change in our present school system, but rather a material addition to it. I am confident that the present system of education does not meet the present requirements of

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commercial and industrial conditions. From the youth who must early earn his own living I believe we have taken away the advantages of school training at too early an age. There is a vast army of young men actively employed in commercial and industrial callings who feel, or can be made to recognize, the great need which they have for a better understanding of the principles of their business, and who recognize clearly enough that these principles cannot, except in the rarest of cases, be learned at the workbench or at the desk under the present conditions of modern commercial and industrial life.

I am convinced, too, that Germany's industrial success and the comparative contentment of her population are in a very large measure due to her system of trade schools. Now I want to leave no confusion in the minds of my readers as to just what I mean by these trade schools. I do not mean the addition of manual training to the course of the public schools; that may or may not be wise, but the decision of that question has no bearing whatever on the sort of school I have in mind. I do not mean the establishment of schools to teach young men trades. I know that such schools have been open to much criticism from practical workers and will meet much opposition from labor unions.

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I recognize force in the hostile attitude of organized labor in regard to schools designed to teach trades. Their point of view may be selfish, but it is perfectly human. I do not mean either that we have any lack of higher technical schools. I think we are fully abreast of the rest of the world in the facilities we offer for training our captains of industry.

It is the rank and file that I am considering, the privates of the great industrial army who have gone forth to the daily grind of work, taking with them such mental equipment as our school system has been able to give to youths of fourteen or sixteen years. These young men are fitted into the great industrial and commercial organizations, and come under the influence of our system of specialization and of our development of automatic machines. They face at once the danger of becoming automatic workers. On the other hand, industry and commerce are squarely facing the very grave danger of training up an army composed solely of automatic workers — an army that will be without active intelligence or effective training in considering the requirements and development of the industries with which it is engaged. I believe we need to establish for the members of this army a means which will aid them to gain a supplementary education

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along lines particularly adapted to their requirements.

Some of us are apt to find much fault with the labor situation. We criticise the attitude of trades-unions and the demands of labor organizers. Might it not be well to remember that we have created an industrial condition in which, in a very large measure, one man's work is exactly like another's; and in certain fields, the work of all largely automatic, that our industrial situation is doing quite as much as the labor organizers to reduce to a dead level of equality the value of men's time in certain industrial lines?

If we want men who will think for themselves, must we not give them a training which will enable them to think correctly? If we want men to become attached to their work and their positions, must we not give them an intellectual interest in that work? If we want independence of thought in a workingman, must we not provide him with the opportunity to be something more than an automatic figure revolving, without volition, interest or active intelligence, as the wheels of industry revolve? From the point of view alone of the attitude of the workingman toward the industrial problems of the day I believe we are doing less than our duty in the way of education, and very far less than the selfish interests of capital would

demand if employers had a clearer vision on this subject.

Americans have thought and talked much about the need for educating the sovereign citizens of a democracy. To-day we are face to face with this fact. We have come to have within our republic another democracy. In importance it is second only to that of the State itself. It is the democracy of organized labor; a democracy of representative government demanding an intelligent constituency if it is to have intelligent administration. There are times when the welfare of more people is directly affected by the deliberations of a council of labor leaders than would be concerned over a vote in Congress on a measure of prime importance in national legislation.

Americans long ago grasped the idea that education is necessary in a republic. That is the corner-stone of the theory of our government. We long since recognized that an intelligent, representative government could only come out of intelligent citizenship. That fact is just as true of the democracy of united labor as it is of the democracy of the republic. It is no academic theory, it is a hard practical fact, of immediate application to the welfare of capital and labor alike.

If I may again turn to Germany for an illustration, I would say that one of the most

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important influences which has been working toward the intelligent moderation of the attitude of organized labor is to be found in the superior education of the workers — in the educational system which has provided organized labor with leaders who have a broader grasp of the problems of industry and a clearer understanding of its principles than they could have had without special educational advantages.

If it can be demonstrated that this is a correct view — that moderate and wise administration of the great democracy of organized labor is more likely to follow if the masses of workmen are educated toward a better intellectual comprehension of the principles of the industries with which they are engaged — then what money value could be put, in this country, upon such a system of education as would ultimately give to organized labor wiser leaders? I believe there is a profound and important truth in this view. If we drift toward a condition in which automatic workers live without intellectual interest in their labor we must expect them to follow — without independence of thought — unwise leaders along paths that will be destructive for capital and labor alike. If we offer educational facilities that will tend to train a considerable number of the youths following industrial

callings so that they will better comprehend the nature of their work and its relation to the whole industrial organization, if we will provide schools that will awaken an intellectual interest in the day's task and kindle ambition which will lead men on to better work and greater contentment, we shall accomplish a step in the development of our educational system which will be of greater importance than any other change in educational methods that is now under consideration.

I want to assert with all the force which my conviction on the subject will give that such a thing is not a dream. There is a vital demand for the development of our educational system along such lines as I have been indicating. When I speak of the youth whose life has been cast in an industrial calling keenly desiring to find the means for gaining an intellectual understanding of his surroundings I am not speaking of conditions which I imagine to exist. Out of my own personal experience I know something of this subject.

I started life as an apprentice in a machine shop, with the mental training which a country school gives to a boy of sixteen. I supposed at that time I should always follow the career of a mechanic, and very early in my apprenticeship I was strongly moved to

get some intellectual grasp of the work. But although I was in a community proud of its schools, it had nothing to offer to youths whose days were fully taken up with their regular occupations. With considerable difficulty I found a man who could teach me drafting, another who was willing to give instruction in mathematics. I want to emphasize that I was not one whit different from my fellows in blue overalls. Much of the money that I spent to pay my own instructors I earned by teaching mathematics out of working hours to my shopmates. They were quite as keen as I for an opportunity to get an intellectual outlook on the business in which they were engaged. They had no desire to be mere tenders of machines. I am confident that, if the opportunity had been at hand, a considerable portion of these young men would have entered with zealous interest upon a systematic educational development if it had been shaped along lines that made its practical application to their daily work apparent.

Let me summarize my convictions on this subject. We have in a brief period built up a striking industrial success. The main elements of that success have been threefold: First, cheap raw material; second, ingenious labor-saving inventions; third, industrial combinations resulting in the great economies

of production on a large scale. Our success in the international markets has in the main been built on cheapness, not on quality.

The very nature of our success has been such that it has minimized the value of superior handicraft. The character of large-scale production, the effect of the subdivision of labor and the result of the extensive use of labor-saving devices have united in a tendency to make automatons of our workers. That tendency is of necessity increased by some phases of the organizations of labor.

The result is a changed order in industrial life. In many fields of industry, indeed in many phases of commercial life also, it is only the rarely exceptional man who is able to raise himself above the deadening influence of his surroundings — surroundings that give him a single specialized task to perform and demand of him no intellectual interest, no understanding of the principles of the industry, no ambition for a broader technical skill.

The man without intellectual interest in his work, without understanding of the relation of his task to other things, and without ambition pushing him steadily toward technical improvement, is in a dangerous position. That he is in a position dangerous to himself is obvious, for if men live lives

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lacking incentive to improvement they will deteriorate. That he is in a position dangerous to industry is also evident, for no bounty of nature, no industrial combination however high, no mechanical invention however ingenious, can succeed with directing intelligence without that united skill of hand, of brain, of broad experience, which can only come from men properly trained in the ranks.

But such a man not only is in danger; even more, he is a danger. He is a danger to the state. We have to admit that the prosperity and security of the state itself lie in the direction of wise leadership for the gigantic forces of organized labor. Such wise leadership will only be born out of a wise constituency. Every argument that can be advanced for the education of a citizen of a republic applies with as great force to the still broader education that is needed by those who shape the course and decide the destinies of the democracy of organized labor. If to be a good citizen requires a comprehension of the form of our government, a knowledge of the principles of civics, a development of a sense of the responsibility of citizenship, and a comprehension of the sacredness of a public trust, then just as truly it is due the state that a member of a labor organization should have in addition

to the ordinary equipment of the citizen an understanding of the principles of industry, a comprehension of the relation and importance of the various parts of the industrial organization — a breadth of industrial view, in brief, and an understanding of economic principles.

Our school system has not thus far provided this, but it is not a difficult thing to provide. It means no revolutionary change in our present system. It means only an addition. The step is not a pioneer one. The system is at work in Germany on a huge scale, attracting hundreds of thousands of youths to its benefits and profoundly affecting the industrial, indeed the whole national, life of that empire. To make the experiment here would involve no possible danger, would interfere in no unfortunate way with our present school system, would entail no expense worthy of consideration. All that is necessary is for American manufacturers and business men to see the worth of the experiment. Exactly the means to bring into play could be soon decided.

My own belief is that the movement should be partly individual, partly the development of the public-school system. I believe the representatives of organized labor and the representatives of organized capital should unite in planning the work. The

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leaders of industry and the leaders of labor should give, not money — the tax payers can readily bear the small additional burden there would be — but themselves, their hearty interest, their careful thought, their helpful influence and good-will. If that is done they will bring an influence into industrial life which will be of incalculable value — of value ethically, intellectually, and financially — and will set an example for which the whole country will owe them gratitude.

THE BUSINESS MAN'S READING

Saturday Evening Post, Philadelphia, 1902.

IT is as important for the young business man to choose well in making his literary friendships as it is to use care in selecting his personal associates. Perhaps the first word of advice in any suggestions regarding a young business man's reading should be along the line of impressing upon him the desirability of making literary friends, but it should be hardly necessary to waste much time in emphasizing the value of well-directed reading in advancing any business career.

One of the reasons why the young business man does not always readily see the value of much reading is that he is apt to be of a thoroughly practical bent, and not quick to appreciate the worth of things that are not immediately available as means of advancement. If a course of reading should be outlined with sound judgment for the average young man in the early years of his business life, he would be apt to ask wherein was the practical utility of the greater part of it. If he is a bank clerk, for instance, and is told

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to read political economy, it is not at all easy for him to see how such reading will make him a better bank clerk. It requires no political economy to total a column of figures correctly. In the bank clerk's whole experience he has never been called on for any academic knowledge of that character, and he sees that he probably never will be. To waste time over a lot of reading that has no practical application to the work in hand seems useless.

The thing that the young business man should clearly understand is that a well-directed course of systematic reading will be of value not so much in helping him better to do the work he has in hand as in preparing him to do much more important work. The young bank clerk whose duties are simple and routine may ask what good it will do him to know the history and provisions of the national banking law. It will do him very little good if he intends always to be a bank clerk; it may do him a great deal of good if he hopes to be a bank officer. One should not, then, search too closely for the evidence of a direct relation between a well-outlined course of reading and immediate advancement in his position. The relation is there, but the reader must have faith enough to do a great deal of hard, earnest work without expecting advances in salary

to follow with the same regularity with which diplomas would be earned in school.

If any number of successful business men were asked what thing it is that the young business man most needs to help him on the road to business success, I believe the answer would be unanimous, and it would be — character. This is not an idle platitude. It is sound, practical judgment, and it will be the most strongly emphasized by the men who are the most experienced in affairs. The more I see of business life, the more clearly I comprehend the great practical value, quite apart from their ethical worth, of some of the well-worn and homely old maxims — those maxims which many boys have thought may do well enough for copybook texts or as subjects for graduating essays, but to which they have attributed little practical importance as foundation stones of business success. I believe that successful business men are of one accord in saying that upright, sturdy, trustworthy character is, more than anything else — indeed, more than everything else — the foundation of worldly success.

If that is true there can be no more practical advice than that the young business man should lead his reading along lines which will be helpful in character-building. One need hardly make a catalogue of books

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of this sort. Different minds will gather inspiration from various sources. The precepts of the Bible, of course, every one will accept as the very best for such purpose. Emerson, Marcus Aurelius, Franklin — the authors are endless, but they will be better selected by the reader than by any one else for him.

One never can tell what particular bit of wisdom may get its grip on a young man's mind and have profound influence in shaping his character and his business success. I recollect, when I was an apprentice-boy, that I got hold of an old file of some Scotch engineering magazine, and I read there some homely advice as to the value of character in the machine shop. The writer pointed out the advantage of a boy so conducting himself that his foreman should have confidence in his character; such confidence that, when something went wrong, when there was a delinquent somewhere to be discovered, the foreman's mind would at once set this boy aside with a secure feeling that suspicion need not be directed against him. That simple bit of good advice happened to make so much of an impression on my mind that I have no doubt it shaped a good many actions and was undoubtedly of real practical value in securing advancement.

Along with reading that is useful in char-

acter-building there should go reading that will create high motives and ideals, for high motives and ideals are of much more practical value in shaping a successful career than a good many young men believe. The reading of well-written biographies will, perhaps, be the most useful in that connection, so many of them point to the possibilities of growth from humble beginnings, and show the force there is in singleness of purpose and in devotion to some clear aim. One will not read many biographies of successful men without being struck with the similarity of the underlying reasons for success.

If character is the first requisite of a successful business career, perhaps the second may be said to be a keen knowledge of one's fellow-men and a clear understanding of the mainsprings of human action. Experience in life gives us that, and it is out of that that the shrewdness of the experienced business man is built. Much knowledge of this sort can be had from reading. Many of the Bible stories, read purely as literature, will help to-day, as they have helped for generations, in forming accurate judgments of men. It is in this direction that there is real, practical value in novel reading. Novels which give correct pictures of life and clear analysis of human character will, if rightly read, add almost veritable living people to one's

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list of acquaintances. That means a widening of one's experience. Dickens, Thackeray, Howells, George Eliot, Jane Austen, Mrs. Humphry Ward, have all created characters that are as real as living people. The reader who has added those characters to his acquaintance has added to his knowledge of human nature. To read carefully a novel written by a master-hand means a distinct broadening of one's knowledge of human motives.

One of the absolute essentials of a business man's reading is the newspaper. Probably most people would say that to the business man it is the most important source of information, and some might say that it contains all that a business man needs to read. For my part, I am very far from attaching to the newspaper the importance which it would seem to merit if we should judge by the relative amount of time which the average business man gives to it. There are distinctly bad results that come from excessive newspaper reading. One is the great waste of time in reading unimportant and ephemeral news. In the making up of the morning daily paper the perspective as to the importance of things must be altogether distorted by the necessity for putting high value upon the latest incident. There is still worse distortion in those papers which have

many editions each day. The trivial thing that happens an hour before the paper goes to press, and in the account of which a paper may hope to "scoop" its rival, will, in the position which the editor naturally gives it, far outweigh the really important event which happened twenty-four hours before. Any business man who has received his bundle of home papers in a foreign city knows how quickly he can go through them when the dates are a fortnight old, and how little he finds in them of real importance.

As to business subjects, I have had opportunity to know something of newspaper writing from the point of view both of the newspaper desk and the business man's desk. I appreciate the obstacles that are in the way of accurate newspaper work, because I have labored under them: the necessity for haste, the impossibility of obtaining complete data, the desire for sensational presentation in a form that will interest a large reading public, the unavoidable difficulty of handling subjects with which the writer must at times have little familiarity; and on the other side I have seen something of the inaccuracies in newspaper work that are at once recognized by the business man who knows the facts; the lack of value which much serious newspaper writing of this nature really possesses; to say nothing of the

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sensational journalism where accuracy is entirely subordinated to startling presentation. Such knowledge as I have, gathered both inside and outside the newspaper office, leads me to place a good deal of stress upon the suggestion that the young business man can waste a great deal of time on the daily newspaper.

Of course, the daily newspaper must be read, but I believe the less time there is put upon it, and the more time there is left for better-prepared writing, the greater will be the gain. If the young business man's interests are broad I think he can with much profit read one foreign newspaper: such a paper as the London Times or the Standard. I have been greatly impressed with the men who are the foreign correspondents of those two great English newspapers. The regular correspondents of the Times in at least four of the great European capitals — Paris, Berlin, Vienna, and St. Petersburg — are men who have held their important positions for at least twenty-five years. They are better trained in European politics than the average diplomat accredited to those courts, their sources of information are of a superior character, and the reviews which they write of political and commercial conditions are extremely valuable. If the business man reads a foreign language, such a paper as

the Frankfurter Zeitung is the highest type of a business newspaper, and can be read with great profit by any one who wishes to keep thoroughly abreast of the currents of European commercial life. In this country we have two or three dailies devoted exclusively to business interests — papers like the New York Commercial and the Journal of Commerce, and they cover remarkably well the commercial and industrial field.

I believe, however, that one can keep abreast of current events much more accurately if he gives comparatively little time to the daily paper and a great deal of time to the weekly review. Such journals handle current affairs with dignity, keen judgment, and much greater accuracy than is to be found in the hurriedly prepared articles of the average daily. If such weeklies are supplemented by monthly magazines and other publications which secure articles on subjects of the most living interest, written by men well qualified to write them, and covering most of the phases of commercial, financial and industrial development, a knowledge of current affairs will be gained incomparably more accurate than would result from the reading of daily newspapers.

Some of the technical weeklies, of which the Financial Chronicle in this country and the Economist and the Statist in England

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are the highest examples, cover the financial field in a way that leaves little to be desired.

Specific suggestions as to what one should read are of importance, but I believe of quite as great importance is some advice on *how* one should read. It is pleasant to drift about in a boat with oars gently lapping the water now and then as one feels lazily inclined to pull them; it is quite another thing to sit in an eight-oared shell, under the eye of an expert trainer, and pull over a four-mile stretch, making every stroke and every pound of weight count for its utmost. The indolent attitude of mind with which many people read headlines or turn pages bears a good deal the same relation to attentive reading that idle drifting in a rowboat bears to the hard exercise and full physical development that come with good work in a good crew. About the best one can say of time spent in indolent reading, leaving as it does but the haziest of mental impressions, is that the reader has been saved from spending his time in something worse than idleness.

I believe that how to read is really more important than what to read, because good method in reading makes good selection inevitable. Loose writing, inaccuracy of statement, untruthful delineation of character, will none of them stand before the careful analytical reader. If he is reading with

right method he will waste little time on poor selections.

If you are in doubt as to whether you are getting the most out of your reading ask yourself how much you remember of the last thing you read. If it was a novel, do you clearly recollect the names of all the important characters? One of the best attainments of a business man is a clean-cut memory for the names and characteristics of the men with whom he comes in contact.

A business man can afford to give up a little of his time to current scientific reading, to keeping his high-school natural philosophy or his college physics up to date, to keeping in touch in a general way with scientific discoveries and the trend of modern research — in a superficial way, perhaps, but still to a degree that may at some time or another in one's business career be of real practical importance.

All these suggestions are rather general, and may seem unsatisfactory because they lack specificity. What the young man wants to know is how he should specialize his reading so as to make it of distinct advantage in his everyday work. Generally speaking, he should read along lines which will give him knowledge that his superiors ought to have, and this will mean that he is fitting himself for better things. If his career is in

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mercantile lines, he should seek the fullest information regarding his particular line of business. The shoe salesman who will specialize his reading upon leather and leather-working, who will learn about the different processes of tanning and the different methods of manufacture, will not only be a better judge of the goods he is handling but will be better able to sell them. The bank clerk who will master the history of the development of the banking system may not see the application of that knowledge to his daily task, but if opportunity sometime knocks at his door he will be much better prepared to accept the burden of greater responsibilities and wider usefulness.

THE AMERICAN "COMMERCIAL INVASION" OF EUROPE

Scribner's Magazine, 1902.

I. THE EUROPEAN POINT OF VIEW

"ENGLAND has been hard hit by the Transvaal War, but is still the richest country in the world; France is without initiative, satisfied with returns on past achievements; Germany shows the greatest energy and initiative in Europe, but has travelled too fast; America has an unparalleled combination of natural resources and initiative, and will go on to greater achievements."

This was a summing up of national qualifications in the world's industrial struggle, by the Russian Minister of Finance, M. de Witte.

I had asked M. de Witte to give his views of the relative positions of the great nations in the world-wide industrial contest. There is no man whose answer to such a question may be listened to with more interest. Sergius de Witte is a man of whom we have heard much, but from whom we have heard

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little. In the minds of many he is Europe's foremost statesman. He shapes the policies of Europe's mightiest empire. He watches with greatest care the varying financial currents, and is in the closest touch with commercial and industrial tendencies.

His Excellency was in his private office in the Finance Ministry in St. Petersburg seated at a great flat-topped desk, piled high with official problems, neatly sorted and tagged ready for his examination. It was Sunday, but he had been hard at work all the morning. While I was with him I heard him make appointments as late as eleven o'clock that night. It is easy to see why he has gained the reputation for being the hardest worked man in Europe. Broad, strong, forceful, but with the repose and atmosphere of reserve power which mark most great men, his personality gave added interest to his reputation. He reached for a fresh cigarette, from a case he had been steadily depleting, and touched it to an odd electrical contrivance on his desk, which automatically lighted it. Then he leaned back reflectively and spoke with a freedom in refreshing contrast to the reserve of many lesser officials.

“England is still the richest country in the world,” he said. “This Transvaal trouble has had marked effect on the finances of that country, and indirectly has affected

the finances of every country in Europe. If Mr. Chamberlain will stop here, if he does not put the burden of any more such campaigns on England, she may be able to maintain her pre-eminent position. Should she have too many Chamberlains and too many Transvaal campaigns she might be ruined. But up to the present time English pre-eminence is not seriously shaken. The nation is still in the strongest financial position of all the great powers, and may reasonably expect to continue there. France is like a small *rentier*. She is contented with a modest income; contented to sit with her lap filled with securities, representing past achievements and present investments, and cut off the coupons. France is not looking for new industrial fields; she is building no new railroads; she is making no commercial conquests. France is satisfied now simply to sit down at home, contented to reap the small rewards that are naturally hers. While those rewards may seem small, however, they become in the aggregate great enough to place her in the forefront financially. Germany, in her natural resources, is poorer than England or France, but she is rich in initiative and energy. The German nation offers the most striking example of initiative and energy that can be found in Europe. Industrially, she has made astonishing strides.

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But along many lines the progress has been unnatural and too rapid, and trouble may come of that.

“America is already one of the richest countries of the world; perhaps, in natural resources, quite the richest. There we find not only remarkable natural richness, but combined with that wealth the most pronounced initiative met with anywhere. With such a combination the country is bound to make the very greatest progress. It will go on and on, and will be greater and still greater. America is especially fortunate in that she has no great military burden. Militarism is the nightmare and the ruin of every European finance minister.

“The industrial crisis which you find here in Russia is not confined to this country. You will find it more or less pronounced all over Europe. Many enterprises have depended largely upon English capital. England’s Transvaal war has forced her to draw in her wealth, and that contraction has had a marked effect upon the industries of all Europe. People who were carrying on business with the aid, directly or indirectly, of English loans, have been forced to make other financial arrangements, and frequently have been compelled to curtail their operations. That reduction of credit and withdrawal of capital have acted and reacted

until they have become important factors in bringing about widespread industrial depression.

“England has not been alone, however, in expending large amounts of capital in military campaigns. The powers have all spent great sums in the last year in the military operations in China. The floating of loans in that connection has made demands upon capital that have further embarrassed industrial affairs. Here in Russia we have had, in addition to those unfavorable influences, other embarrassing conditions. The Government has been building less railroad than has been constructed at any time during the last ten years. As the Government is the chief customer for railroad supplies, depression has naturally followed in all industries depending upon railroad construction. Then there have been industrial enterprises organized here on a not too sound financial basis. But as we get farther away from some of these special causes of depression, I think the industrial crisis will end.”

There can be no doubt of the interest of M. de Witte in the subject he was discussing. Russia's need for capital is like Sahara's thirst for water. There is probably no man in Europe more anxious than he to see the whole earth smile under the blessings of peace, the particular blessings in which he is

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interested being a low rate of interest and a market hungry for bonds.

I met M. de Witte, as I met all the other finance ministers of Europe, on a tour which I made last year to obtain the European point of view regarding America's industrial expansion. The European view of the competitive positions which the great nations occupy in the struggle for international trade development is just now a matter of keen interest to the people of the United States. As an officer in the financial department of the Government, during the period of the most extraordinary development in the whole history of our foreign trade relations, I was especially interested in this subject. I wanted the point of view and conclusions of some of the men who were equally interested observers, but who were looking at the development from without rather than from within. For four years I had seen at close range the growth of a favorable trade balance which had assumed a total in that brief period greater than had been the net trade balance from the founding of the Government up to that time. That was a phenomenon which had had few parallels in our economic history, and the desire to study it from the European point of view led me to visit nearly all the countries of Europe. I was offered rather unusual facilities for ob-

taining the views of men most influential in political life and commercial affairs. The diplomatic representatives at Washington introduced me to the finance ministers of their home governments, and through the foreign treasury officers I was able to meet the heads of all the imperial and state banks; through other channels, prominent bank officers and industrial leaders. It is my purpose to give some of the observations and deductions which resulted from this tour.

The subject I discussed with these distinguished foreigners is one regarding which our public has been pretty thoroughly enlightened in the last five years, and it is one of which the European public has heard almost as much in the English and Continental newspapers, but from quite an opposite point of view. When the amount of our sales to foreign countries passed the \$1,000,000,000 mark in 1897, we began to congratulate ourselves on the strides we were making in the markets of the world. The record was followed by steadily growing totals, until now we have, in a twelve-month, sent to other nations commodities to the value of \$1,500,000,000. The meaning of that total is emphasized if we look back and find it compares with an average during the ten years ending 1896 of \$825,000,000.

While our sales to foreign countries have

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grown so prodigiously, the other side of our financial account during these last five or six years has shown no proportionate increase. We have bought from the foreigners an average of only \$800,000,000 a year, and that total has shown little tendency to expand. It was this fact, this mighty development of our sales, while our purchases were, comparatively, on a declining scale, which piled up in half a dozen years a favorable trade balance so enormous as to startle the world. In the last six years we have sold in merchandise, produce, and manufactures \$2,000,000,000 more than we have bought; while in all our history, from the beginning of the Government up to six years ago, the foreign trade balance in our favor had aggregated a net total of only \$383,000,000.

The significance of these surprising totals was recognized on both sides of the Atlantic. An analysis of them brought out features more important than the vastness of the aggregate. Heretofore our sales had been made up almost wholly of foodstuffs and raw materials. Europe was the workshop. But that has changed, and we find, year after year, an astonishing increase in our exports of manufactured articles, an increase that in the last two or three years reached totals which gave ample basis for the popular talk

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of our invasion of the European industrial fields. Our exports of manufactured articles in the decade prior to 1897 averaged \$163,000,000 annually. In 1898 our sales of manufactured articles to foreign customers jumped to \$290,000,000, the next year to \$339,000,000, the next to \$434,000,000.

These figures, showing a steady invasion by our manufacturers of foreign industrial fields, have a natural corollary. As exports of manufactures increased, our imports of the handiwork of foreign shops showed an even more rapid decline. Our manufacturers were not only invading the foreigner's own markets, meeting him at his threshold with a new competition, but they were taking away from him his greatest market — the United States. We have in the last half-dozen years been manufacturing for ourselves a vast amount of goods, such as we have been accustomed to buy abroad.

One can turn from a contemplation of these great totals to an examination of the records made in recent years by individual industries, and find in detail facts upon which to base a belief that the United States has acquired, or is acquiring, supremacy in the world's markets. So many industries have been sending rapidly increasing contributions to swell the rising tide of our foreign commerce that it is difficult to tell

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any detailed story of American commercial expansion without making it read like a trade catalogue. The increase in our exports of manufactured articles can, in the main, be traced to advances made in the manufacture of iron and steel, and to the display of inventive talent in the making of machinery. The development of our grasp on the world's markets for articles manufactured from iron and steel has been no surprise to those who early recognized the position of America in respect to the raw materials from which those articles are produced. America unquestionably possesses advantages, in respect to her iron ore and her coal mines, far superior to those of any other country, and, based solidly upon that superiority, has already become the greatest producer of iron and steel in the world.

American locomotives, running on American rails, now whistle past the Pyramids and across the long Siberian steppes. They carry the Hindoo pilgrims from all parts of their empire to the sacred waters of the Ganges. Three years ago there was but one American locomotive in the United Kingdom; to-day there is not a road of importance there on which trains are not being pulled by American engines. The American locomotive has successfully invaded France. The Manchurian Railway, which is the

real beginning of oriental railway-building, bought all its rails and rolling-stock in the United States. American bridges span rivers on every continent. American cranes are swinging over many foreign moles. Wherever there are extensive harvests there may be found American machinery to gather the grain. In every great market of the world tools can have no better recommendation than the mark "Made in America."

We have long held supremacy as a producer of cotton. We are now gaining supremacy as makers of cloths. American cottons are finding their way into the markets of every country. They can be found in Manchester, as well as on the shores of Africa and in the native shops of the Orient. Bread is baked in Palestine from flour made in Minneapolis. American windmills are working east of the Jordan and in the land of Bashan. Phonographs are making a conquest of all tongues. The Chrysanthemum banner of Japan floats from the palace of the Mikado on a flag-staff cut from a Washington forest, as does the banner of St. George from Windsor Castle. The American type-setting machines are used by foreign newspapers, and our cash-registers keep accounts for scores of nations. America makes sewing-machines for the world. Our bi-

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cycles are standards of excellence everywhere. Our typewriters are winning their way wherever a written language is used. In all kinds of electrical appliances we have become the foremost producer. In many European cities American dynamos light streets and operate railways. Much of the machinery that is to electrify London tram lines is now being built in Pittsburg. The American shoe has captured the favor of all Europe, and the foreign makers are hastening to import our machinery that they may compete with our makers. In the Far East, in the capital of Korea, the Hermit Nation, there was recently inaugurated, with noisy music and flying banners, an electric railway, built of American material, by a San Francisco engineer, and now it is operated by American motormen.

One might go on without end, telling in detail the story of American industrial growth and commercial expansion. In the list of our triumphs we would find that American exports have not been confined to specialties nor limited as to markets. We have been successfully meeting competition everywhere. America has sent coals to Newcastle, cotton goods to Manchester, cutlery to Sheffield, potatoes to Ireland, champagnes to France, watches to Switzerland, and “Rhine wine” to Germany.

Our public has generally looked upon the development of our foreign trade as only one of the incidents in the remarkable period of prosperity which we have been enjoying, and has not, perhaps, clearly analyzed its full significance. The European, I found, had come nearer to a real understanding of the situation.

A distinguished Berlin economist outlined an idea which seemed to me interesting. "Two or three generations ago," he said, "there were families in America living a life of almost complete industrial independence. Not only was all the necessary food raised, but within the household there were spinning and weaving and the application of all necessary trades. The invention of machinery, the development of factory life, the specialization of industry, made such independence impossible. That which happened to the family a hundred years ago has happened now to the nation. Specialization has gone on, and concentration, combinations, and trusts have made it as impossible for the small manufacturer to compete with the great as it was for the hand-loom and the spinning-wheel to compete with the factory. The perfect and instant communication between distant parts of the world, the cheapening of transportation, the wider knowledge of every country, its products and its

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needs, have brought about an interdependence of nations that is now almost as great as the dependence of one class of industrial workers on another. This national dependence, this necessity of every country to more and more largely buy and sell in foreign markets, is forcing every nation, whether it wills or not, into participation in an international industrial struggle. That is the keynote of the new century. Whoever will forecast the future of nations can now make no more useful study than an examination of their comparative industrial equipment.

“History is becoming more and more the story of industrial development,” he continued. “The strength of a nation becomes more nearly measured by its wealth, its importance in the world’s progress, by its relative commercial position. History will more and more be written in ledgers and balance-sheets, in trade statistics, and in the figures which show the results of industrial conquests or defeats. Modern iron-clads and smokeless powder have largely taken out of warfare the element of personal bravery, and have substituted technical skill and executive ability. Many of the same qualities which win great industrial battles are to-day potent in deciding the results of military campaigns. Commercialism in its highest sense has been the real object back of half

the military movements of the last decade. It may all seem very sordid and unromantic, but I believe that a study of the comparative price-currents of nations, an analysis of trade balances, an understanding of the statistics of production and consumption, will give the *data* which are now needed in making a forecast of a nation's history."

There are two phases to the significance of the American grasp of the world's markets. The obvious phase is the development of our own industries which must follow such a conquest. If our factories are to be great enough to supply our own wants and in addition turn out a surplus so large in volume and so low in price as to become one of the most important factors in the world's markets, we can count on an industrial growth of which we have heretofore hardly dreamed.

There is another phase to our conquest of foreign markets, however, and that is its effect upon the other nations of the world. If a much larger share of the world's manufacturing is to be done in America, it means a lesser share will be done elsewhere. The pictures which some enthusiastic observers of our foreign trade delight to draw, of a time when our exports have so increased and our imports so diminished, that we will not only make everything we want for ourselves,

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but a very large part of what the world wants besides, is a picture which offers neither a probable forecast nor a desirable result. Naturally we cannot go on selling to the world a great surplus of food products and manufactured articles without buying from the world in return. Statistics indicate that we have for the last two or three years been sending Europe annually something like \$600,000,000 more than we have been buying. Europe has not been paying for this in gold. During the six years in which we built up a surplus foreign trade balance of \$2,744,000,000, we have received from the rest of the world a net balance in gold of only \$132,000,000.

One of the most unanswerable of financial conundrums is how the world has settled its debt to us in the past and is to settle it in the future. If these statistics of our foreign trade are to be depended upon, it would seem as if we had placed the world in our debt in the last six years to such an extent that we ought to be about ready to foreclose our lien. As a matter of fact international finances do not show that we have any unusual command in the world's money markets; our bankers have no extraordinary credits with their foreign correspondents. There seems to be no vast accumulation of funds upon which we can draw at will, nor is there other

evidence that any large part of this balance is still unsettled.

The question of how a \$600,000,000 annual trade balance is to be settled has been a rather interesting puzzle to our financiers; to European finance ministers and bankers, to manufacturers and workmen, it is a subject of the most intense and immediate interest.

The answer as to how that trade balance has so far been settled requires a good deal of explanation which must be based on very unsatisfactory *data*. The prediction as to how it is to be settled in the future leads to most interesting speculation regarding financial conditions.

In the first place the problem is not so difficult as it looks on its face. While Government reports show that we have sold to Europe roundly \$600,000,000 a year more than we have bought, it may be certain that the total is considerably below those figures. I have been close enough to the making of Government customs statistics to know something of the difficulties. No fault can be found with the thoroughness of the work, but it is quite impossible to strike any accurate international trade balances when the figures on one side of the ledger must come from importers who have the strongest motives for undervaluing imports in their state-

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ments. I would hardly like to make a guess regarding the average percentage of undervaluation for all our imports, but it can, at the outset of the consideration of this problem, be set down as a very large amount. Then there are items of great importance of which our customs statistics can take no note. Our European tourists are generally supposed to spend \$100,000,000 a year. We pay for freights to the owners of foreign steamship lines perhaps \$75,000,000 more. There is a great stream made up of numberless small remittances, sent home by prosperous immigrants. And lastly, and most important of all, there has been going on a repurchase by American investors of our securities which have been held in foreign markets. This, in the aggregate for the last ten years, assumes enormous proportions. The best of statisticians can do nothing more than guess at the amount, but it has been great enough, in the main, to counterbalance the excess of our foreign sales over our purchases, after the totals of travellers' expenses, ocean freights, and the home contributions of immigrants have been deducted. This return of our securities cannot go on forever; indeed, there is pretty good reason to believe it cannot go on much longer, for the reason that there are now few American securities held in Europe to return.

It is the practice of the great banks of Europe, particularly of Germany, to take charge of the securities owned by a vast clientage of investors. When in the Imperial Reichsbank and in the Deutsche Bank in Berlin, I was taken into great vaults whose walls and floors were covered with cases like an immense library, containing stocks and bonds belonging to clients of the banks and held there for the collection of coupons and for safe-keeping. In each of the banks there were securities representing some 2,000,000,000 marks. It was interesting to be shown great cases of empty shelves which had formerly been set apart for American securities, and which now held only here and there scattered packages. This was the visible evidence of what an examination of investors' strong boxes would show in all those European countries which have in years past found in America the most profitable field for investment.

If our foreign trade is to continue to hold the same relation between imports and exports that has been ruling for the last few years — if we are to go on selling Europe, say, \$600,000,000 a year more than we buy — there will be then, after liberal reductions for travellers' expenditures, ocean freights (an item which the development of American shipping may materially decrease), and

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immigrant remittances, a balance due us of \$300,000,000 or \$400,000,000 a year. How is that balance to be paid?

That question is, perhaps, the most interesting of any that can be propounded to-day in the field of international finance. I asked every finance minister of Europe and the head of every imperial bank for an answer to it. I found it a question over which they had pondered much and never with feelings of satisfaction. That Europe cannot pay such a balance in gold is obvious; that we would not desire to have it paid in that way is clear. The conclusion which I found nearly every important European financier had already reached was that America will sooner or later enter the European security markets; that the tables in international investments are to be completely turned; that we are to hear no more of the English or the German syndicate making investments in America, but rather of the American syndicate becoming a most important factor in the foreign investment field.

The low interest rates which for the most part have been ruling in America for several years have everywhere attracted attention. The belief is growing that New York is to become the lowest money market in the world. There has been particular interest in the advances made in the market price of

investment securities. The quotations which have been made for high-grade bonds have been the wonder of Europe. While market quotations have shown United States two per cent bonds selling at 110, the three per cent bonds of the Imperial German Empire were quoted at 88, English consols bearing two and three-quarters per cent sold at 93, Russian four per cent gold bonds at 96, and Italian Government issues at prices netting the investor over four per cent.

These comparisons are anything but pleasing to European treasury officials. They are quick to see, however, that such a comparison is not entirely fair. Our Government bonds are free from taxes, and, even more important than that, they have a special use and value to national banks. A national bank may issue circulation against deposits of these bonds with the United States Treasury, or may receive public deposits if it puts up Government bonds as security, and so the market value of our Government issues, and particularly of our two per cent bonds, cannot be taken as a measure of the investment return which capitalists are willing to take. It is a fact, however, that there are over \$500,000,000 of our Government bonds not held by national banks to secure circulation or as a basis for public deposits. Those \$500,000,000 are held solely for investment,

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and are maintained at market prices which net the investor less than one and three-quarters per cent, quotations which certainly put the credit of this Government far above that enjoyed by any other nation.

There are other evidences that the United States is becoming the best market in the world for the highest grade of industrial securities. First-class railroad bonds, as, for example, those of the Pennsylvania or New York Central, sell on a basis that nets the investor as low a rate as do English railroad bonds, while on the Continent the highest grade of corporate securities sells at prices to realize higher rates of interest to the investor than do our best securities.

That the United States gives promises of reaching a position of industrial supremacy in the world's trade is acknowledged to-day the world over. Undoubtedly we have been too flamboyant in some of our claims. The industrial world as yet is by no means prostrate at our feet. We have before us a long campaign of hard work and intelligent prosecution of every advantage which we have, before we reach such a position of industrial supremacy as occasional newspaper writers on both sides of the Atlantic have given us credit for. That we have the foundation upon which to build such industrial supremacy, however, cannot be doubted by any one

who is familiar with the resources and abilities shown in our own industrial field, and makes intelligent comparison with the conditions that obtain abroad.

It ought clearly to be kept in mind that the road to the commercial domination of the world is not a clear one for us, and that as yet we are a long way from the end of it. Evidences of that will be found in studying current statistics of our manufactured exports. The rapid increase which has been going on for a number of years has halted, and for the last fiscal year reports show a decrease. That decrease can be accounted for by the fact that our shipments to Porto Rico, Hawaii, and the Philippines are no longer counted foreign exports, but it is, nevertheless, evident that a halt has come in the triumphant march of American manufactures toward European markets. An important reason for this is in the very force of the success we have made. There have been serious inroads made in the prosperity of many foreign manufactures by our successful competition. The depression has been reflected in lower wages and in decreased purchasing power, and a lower level of prices which has reacted on us in common with the foreign manufacturers.

In a good many directions we have much to learn in regard to a successful prosecution

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of foreign trade. The Germans could give us valuable lessons. They are strong in two particulars — strong in the line of technical education, though perhaps not superior to us, and strong in commercial training specially adapted to the needs of their representatives in foreign countries. In this last particular we are lamentably weak. We do not learn languages readily, and we have been too busy with our home affairs to cultivate what facility we have. It is a comparatively difficult thing to find trained business men, born in America, who speak fluently two or more Continental languages, and it follows from that difficulty that we send commercial representatives to Europe who are under the almost hopeless handicap of not speaking the language of a country in which they wish to do business. Were it not for the coming universality of the English language, the handicap would be far greater than it is. Unfortunately the bad equipment of many of the commercial representatives who are sent abroad is not confined to their lack of knowledge of languages. Frequently they have but vague ideas of the commercial geography of Europe. They are not at all clear as to what particular sections are given over to this form of manufacturing or that field of production. More than half the failures that have come to manufacturers who

have tried to extend their foreign business have resulted from the lack of qualifications in the representatives they sent abroad.

Another condition that is not favorable to our development is one that is being thought of a good deal more in Europe than at home. We no longer are occupying the leading position in scientific investigation having special commercial application. Many of the most notable discoveries of the last few years in commercial chemistry, electricity, and other fields of scientific work having direct relation with industry have been made by foreigners. The X-ray and the wireless telegraph are illustrations which would occur to every one, but there have been numberless important discoveries of great value in industrial operations for which we are obliged to pay royalty to foreign inventors. The United States Government is to-day paying a royalty to a German inventor for the use in the mints of a method of refining gold by electrolysis, a method which proved much cheaper than that which had been in common use in the Government and commercial refineries up to within a year or two ago. Many such illustrations could be given.

One of our particular points of strength has in it danger, when carried too far, of being an element of decided weakness. We

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have profited greatly by our genius for specialization, and our adoption of standard models of machines, which can be made in great quantities at extremely low cost. In holding closely to these standard designs, we have frequently lost sight of foreign prejudices. Small concessions to those prejudices might have meant large sales, but our manufacturers have declined to make them. In Moscow, for instance, I talked with a merchant who had branches all through Siberia, and who bought large consignments of ploughs in America. The Russians do not harness their horses as we do, and our method of hitching a team to a plough is not adapted to their use. This merchant found it impossible, however, to get our plough manufacturers to adopt the slight changes which he suggested, even when his orders were for very large quantities, and he had to have made in Germany the type of clevis which his customers demanded and attach it to his importations of American ploughs.

The most important of all obstacles that the development of our foreign trade is likely to encounter is the same one which has proved the most dangerous rock in the path of English industry — the growth of a spirit in trades-unions which attempts to regulate the business of employers in other

matters than those relating to wages and hours of labor. I believe the decline of English industry can be attributed to the success of labor organizations in restricting the amount of work a man may be permitted to do, more than to any other single cause. We have encountered that spirit too frequently in our own labor field, and it is one which, if successfully persisted in, will cut the ground of advantage from under our manufacturers quicker than anything else I know of.

It is generally understood that our natural resources are in many important particulars unparalleled. We patriotically believe that the ability of the average American workman is superior to that of his competitor in other countries. We are all confident that our form of government offers the solidest foundation upon which to build national prosperity. Our industries are helped rather than hampered by our system of federal taxation, while an examination of the incidence of taxation in nearly every country abroad shows that a most depressing influence on industries is exerted by the national tax-gatherers.

There are other facts in our favor not quite so generally understood. We have, for instance, a financial system, particularly

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in the relation of our banks to every-day business transactions, which gives us as much of an advantage over most of the Continental countries as would some great labor-saving machine. The American business man whose operations are even of the most modest extent is certain to have a bank account. He pays his bills with checks or drafts. When he wishes to extend his operations he does not borrow actual currency, but he borrows bank credit. In all his transactions he has to aid him the most fully developed credit system to be found anywhere in the world except in Great Britain.

It is almost beyond belief how little development there has been in this direction in some of the foreign countries. A bank check is looked upon with suspicion in Italy. Practically no small tradesmen would take a check, and none of them keep a bank account. It was still more surprising to me to find that such a statement would be almost literally true of Paris itself. I was studying the mechanism of the Bank of France under the guidance of one of the officers. We went into one great room in the old building in which there were 200 desks enclosed in wire cages, all empty at the moment. I asked what these were for.

“These cages are for our city collectors,” I was told. “When a small merchant bor-

rows from the Bank of France, he does not, as with you in America, borrow a bank credit and have his loan merely added to his balance on the books of the bank. With us the merchant, when he makes a loan, gets the actual money and takes it away. He probably has no bank account with us. He writes no checks. When the loan is due he does not, as would be the case in your banks, come in and pay his indebtedness with a check; instead of that we send a collector to him, and that collector is repaid the loan in actual currency. Two hundred men start out from the Bank of France every morning to collect matured loans. Several days each month it is necessary to send out 400 men, and on the first and the fifteenth of each month 600 collectors go out."

These collectors were uniformed men carrying leather pouches in which they have the matured notes and which are later filled with currency as the collections are made from the bank's borrowers.

I stood at the paying-teller's desk as I went farther along in my tour of the Bank of France. As I halted there the man who happened to be at the window at the moment presented a check for 50,000 francs. The money was counted out and handed over to him, stored away in a big wallet,

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and he passed on. I asked if it were not unusual for a man to draw out so much currency, and was told that it was not. It was but another illustration of how undeveloped is the banking system of Continental Europe in its uses by the general public.

A story that was told me on the highest authority in Vienna sounds ludicrously incredible, but it is true. The Austrian Government bought a telephone line from an English company. There was a payment of 1,000,000 gulden (about \$400,000) to be made by the cabinet officer corresponding to our Secretary of the Interior. The representative of the English company wished to be paid by merely receiving a credit at the Austro-Hungarian State Bank. The minister regretted that there was no precedent for such a method and insisted on sending to the bank, which is the government's fiscal agent, bringing the actual money to his office, and counting it out to the Englishman, who in turn took it back to the same bank, where it was again counted and put back in the vault from which it had been taken an hour before.

As one gets farther east the methods of banking become more primitive. The Russian peasant frequently becomes a man of very considerable property, but he is apt to

cling to his early financial method of banking in his boots. He wears boots with high felt tops, and the leg of one is the receiving-teller's cage, and the top of the other is the paying-teller's. He will start out in the morning with his right boot-leg full of money. His day's payments are made out of that boot, and his receipts are deposited in the other. At night he checks up on his day's financial operations and strikes a balance.

The banking methods of Continental Europe are cumbersome and time-consuming, and the people generally have learned but the first lessons in the uses of credit machinery. That forms a handicap upon industry that is just as real as that caused by their persistence in using out-of-date machines and methods of manufacture which we have long ago abandoned as slow-going and expensive.

One of the important factors in the strength of our industrial position is the unquestioned superiority in our transportation system. If one has fresh in mind the picture of our luxurious trains, mammoth engines, and, more important still, our standard fifty-ton freight-cars, it makes the Europeans seem like amateurs in the science of transportation when we see their toy cars, small locomotives, and generally slow-going ad-

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ministration. If one looked into the matter with the eye of an expert, studying the unit of cost, the freight charges per ton per mile, or the mileage rate for passenger service, and made comparative statistics of the tonnage of freight-trains and the cost of moving them, he would discover a startling lack of efficiency, both in Great Britain and on the Continent. Perhaps it is not quite fair to make comparisons of the average cost of freight traffic per ton per mile in America and in Europe, because the average haul is much shorter there, and terminal expenses of a haul are practically the same whatever its length. The average charge per ton per mile on all American railroads for all classes of freight is now less than three-quarters of a cent. If we take the statistics of the Eastern trunk lines alone, that figure would be cut to about one-half cent per ton per mile. It compares with 2.4 in Great Britain, 2.2 in France, 1.6 in Germany, and 2.4 in Russia. One of the most remarkable illustrations of the failure of European managers of industries to keep pace with the times is to be found in a comparison of the efficiency of their railroads with ours. English railroads charge three times as much to move a ton of freight as it can be moved for in America. English railroad managers have failed to grasp the economies that are made possible

by heavy traffic, by the use of engines of enormous capacity and freight-cars that will carry fifty tons. But if the English railroads have failed to keep pace with ours, what can be said of most of the Continental roads? Short trains with pygmy freight-cars, each car holding only eight tons, make clear to any layman the handicap which high transportation charges have laid on industry all over Europe.

In the little town of Abo, in Finland, I was waiting one day for a steamer to go to Stockholm. In strolling about the town I ran across another American. I learned that he was the representative of a great engine manufactory, and that he had been covering Europe from Spain to Russia. He had been able to sell his engines in competition both with the domestic manufacturers and with the makers in Great Britain and Germany, who had before practically controlled the trade. I asked him to analyze for me the conditions that enabled him to come into these markets and sell in successful competition in spite of customs duties, in spite of 4,000 or 5,000 miles of transportation charges, and in spite of the fact that his factory paid workmen average wages two or three times as large as were paid by his competitors.

"Our success in coming into this field," he said, "is very largely due to what in our

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manufacturing parlance we call the making of ‘standards.’ We believe we know how to make a type of engine which will give the maximum efficiency for a certain class of work. We develop our standard type and then we stick to it. We are enabled to manufacture an enormous number of engines all exactly alike because we have in our home market an enormous field. The American public has been taught that a builder of engines knows better how to design an engine than does the individual who only occasionally buys one. Our best manufacturers absolutely refuse to vary from their standards. In making a great number of engines exactly alike we can turn out work at a price that is simply beyond the possible competition of the ordinary European maker. Our labor-saving machines largely compensate for the higher wages we pay. The English and German manufacturers are harassed by consulting mechanical engineers. A man who wants to buy an engine employs an independent consulting engineer. The engineer invariably feels that he must earn his fee by suggesting a change. If a dynamo is adjusted to make 112 revolutions a minute he wants an engine built that will turn it 113. The result is that English and German manufacturers make an endless number of types. What is more, they cannot get away from

the thralldom that they are in, and adopt our system of standard types, because they have not the great, broad, homogeneous market which America offers to its own manufacturers. I doubt if our manufacturers appreciate the great advantage which they have in this home market, where the inhabitants, from the Atlantic to the Pacific, are very much the same kind of people, with very much the same needs and desires. In Europe every manufacturer has a sharply circumscribed field. He is met by new tariffs and new tongues only a short distance from home in whatever direction he goes. The type of article which can be sold in one district may find no market in another close by. With us the man in Los Angeles wears just the same kind of hat as the man in Boston, and the people through all that stretch of 3,000 miles are dressed the same, and buy, generally speaking, similar commodities. This broad basis of our own unparalleled market, which permits a manufacturer to successfully work out a standard article, and then produce an enormous quantity of that exact type, is the most secure basis upon which to build a foreign trade. We alone have that advantage. No European manufacturer can successfully follow in our lead."

When M. De Witte said that militarism

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is the nightmare and the ruin of every finance minister, he spoke a truth that has an application to this question of industrial rivalry. The evidence of militarism is one of the most obvious things in Europe. In Russia one is never out of sight of a line of brown-coated, stolid-faced soldiers. A tremendously effective display of military strength is everywhere encountered in Germany. One is impressed by the cost of the brave attempts of poor Italy to keep up military appearances in the company of first-class powers, a company to which she has not the natural right to aspire. No one can see this universal display without contrasting its cost and the burden which that cost throws on industry, with the comparative freedom from that weight in the United States.

Europe spends annually for military and naval establishment \$1,380,000,000. With our army on something of a war footing, as it is at present, we have only spent in the last year for the army and navy \$205,000,000.

Marked as is this difference of cost, it by no means measures the real weight which militarism puts on the European powers; it is not alone that Europe spends \$1,380,000,000 a year to maintain the military establishment, but very much more important, from

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the industrial standpoint, is the fact that Europe takes out of her productive capacity 4,000,000 men. These millions are just in the fulness of their youth and would be a tremendous factor in industrial production. The male industrial population of Europe, men between the ages of twenty and sixty, may be estimated at about 100,000,000. To withdraw from productive industry for military purposes 4,000,000 men means a loss of four per cent, and that is in addition to the taxes necessary to raise the \$1,380,000,000 for the annual maintenance of the military establishments. When we perceive the full weight which militarism has hung upon the neck of industry in Europe, we see another enormous handicap which is acting year after year in our favor.

In the course of a conversation with one of the most eminent of European financiers, a man who has added the distinction of notable public service to a business career which made his name familiar in every financial centre, I said that one of the things which had occurred to me in my observation of European affairs, after seeing the tremendous effect upon England herself and through her upon all the countries of Europe of the expenses of the Transvaal War, was that if a small war under modern conditions was to cost so much as the Transvaal War

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had cost, and was to produce such an effect upon industry and commercial conditions throughout Europe, no great war would in the future be possible.

“You are wrong,” he said.

“That is not clear to me,” I replied. “Let us take Russia for illustration. Suppose Russia was to begin a great war. Where is she to get the money?”

“Let me tell you a little of a war of which I know something,” he said. “I happen to control nearly all the railways of Turkey. Turkey had a war with Greece. Now let us see how she paid the expenses. She raised an army; she paid her army nothing. She transported that army of 60,000 men from the interior of Asia Minor to the Greek border. How did she do that? She commanded our railroads to carry them. Did we carry them? Yes. Have we any pay for it? No; nor will we ever have. So she paid nothing for the transportation of her army. Then she had to arm it. What did she do? She bought arms in Germany. Has she paid for them? No. So she raised her army, transported it, and armed it. The whole cost of that campaign, in fact, was managed without any real expenditure of money.

“So it would be with Russia. I was once in the interior of Persia. I met there, 2,000

miles from the sea, two German tramps. I asked them where they were going. They said: 'The Pacific Ocean is off here somewhere, and we are making our way toward the Pacific Ocean.' I asked them, 'What can you do?' One said, 'I can play a trombone.' The other said: 'I can weave straw baskets.' 'Well,' I said, 'how have you got here?' 'We can walk, and the people are good,' was the answer.

"So it is with the army. They can walk, and the people are good. If the people are not good, the army gets its provisions any way. The expenses of a war in Russia, so long as it was in Russia, would be to that nation very small, and the financial situation is not a commanding condition in any considerations of peace or war."

"What is the future of the world with respect to America?" I asked. "If America is to go on in anything like the way she has been going in the last three or four years with her foreign trade—if America is to sell to Europe \$600,000,000 a year more than she buys—what is to be the outcome?"

"Something always happens, and something will happen here. I do not know what it is; I cannot foresee it. America so far seems to be making no mistake, but something will happen. Things cannot go on as they are going. It may be that it is your

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colonial policy. At present there are 4,000,000 soldiers in Europe, the best of her young manhood, who not only are taken away from production, but are paid for being taken away from production, and Europe is paying six milliards a year to support them. That six milliards does not measure the cost. It is that, plus the loss to production, which hampers commercial Europe, and it is there that you have the great advantage. But what of your future? We are glad to see you going into the Philippines. We will welcome the time if you are going to measure strength with us as a military power. Commercially you are supreme, but if it comes to a test of military strength, if you are going to weight yourselves with the militarism which is the burden of Europe, then we can see some light.”

I asked if the tendency in Europe is in the direction of a reduction of military forces. “Not at all,” he said. “France hates England, and England hates France; Germany detests France, and France detests Germany; Russia hates Germany, and Germany hates Russia. There it is all around. There is no hope of reduction. It is impossible. England has hoped to come to some understanding with Russia. I spent some time at the home of Mr. Chamberlain not long ago, and there was a strong hope in his mind that

England could come to a better understanding with Russia. But it is impossible, just as it is impossible for France and Germany to come to an arrangement. We are no longer afraid of France. We beat her from a military standpoint. We have beaten her now from a commercial standpoint, and there is nothing else. Commercially we hold a pretty strong position with France. After the war we had a treaty which provided that we should be equal to the most favored nation. France began making special treaties, but as soon as she concluded one we took a place equally favored, and strengthened our commercial position. We have beaten her commercially, and I see nothing to fear from France."

I asked what he thought of the great consolidations of America, such as the steel combinations.

"An autocracy is good or bad according to the autocrat. If he is a good autocrat it is the very best thing possible. If he is a bad autocrat, it is the worst. Who is going to control your trusts? That is the whole question. It is true you have managed your Standard Oil in a way that is creditable, and that has brought satisfaction to the country. The Sugar trust has been in a measure managed as well. But what assurance have we that this great Steel trust is to be managed so

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well? That is the whole problem. It is the question of men. Undoubtedly it makes you a much more formidable competitor, because it consolidates your interests. But you are a young nation. You are a young people. You are young in this business of consolidation. What has been the world's history when you put great power into the hands of young men? It has sometimes been abused. We shall watch with great interest the course with you in this enormous combination.”

And that is what all Europe is doing — watching with the keenest interest our course as it affects our position in the world's industrial contest.

II. ITALY, AUSTRIA, GERMANY

Industrially it is no longer the Old World. It is New Europe and Old America! It is New Europe, a land of undeveloped possibilities, abounding in opportunity for keen captains of industry. It is mature America, the exemplar of modern industrial methods, perfected mechanical ideas, and ripe economic policy.

This conception of a new Europe, looking toward mature America for the best illustrations of industrial development, was novel enough when I first encountered it, but it

becomes familiar as one goes from country to country and sees field after field rich in opportunities for the introduction of better methods, the application of better mechanical ideas, and the planting of more correct economic policies. It was in Rome that I first met this thought of a new Europe. I was told that Italy was but thirty years old, that the present economic life dates back only to 1870, and that the modern Roman is to-day an industrial pioneer in a virgin country. Such a thought applied to almost the oldest European civilization is especially striking, but every other country of Europe offers illustrations of the truth of the paradox. We not only find that Italy has suddenly awakened to the possibilities of conserving the force of her enormous water-power, and is beginning a great movement to turn into electrical energy numberless cascades and rapids, but an examination of the industrial side of every other nation shows much that is still unhewn and unwrought. Austria has just formulated a legislative plan for a great network of canals which will cost hundreds of millions of florins and revolutionize the transportation of the empire. Germany, from this industrial point of view, is a picture of youth — new factories on every hand, new development everywhere, and the spirit of the industrial pioneer in all the

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people. England, wedded as she is to industrial precedent, turning instinctively from methods that mean change, holding close to the ways that were the ways of the fathers, presents a field unploughed when looked at from the point of view of the opportunity offered for the introduction of the best industrial methods and the most economical mechanical equipment. France, with her satisfaction over her minute subdivision of ownership and her contentment with small things, offers virgin fields for the exploitation of modern ideas of specialization, combination, and community of interests. Vast Russia, enormous in extent and population, is immaturity itself, new industrially beyond anything America has known for two generations.

When we see that Europe is an industrial field, still undeveloped; that in many directions the methods and practices current in industrial life are as wasteful and expensive as are operations in some new country, we perceive at once that such a condition has two important relations to our own industrial life. If our foreign competitors are not making the most of their opportunities, their time, and their labor, gauged by our standards, it means that they are under a handicap in competition with our industrial output, and so long as our methods are superior to

the methods in vogue in Europe we may look for continued advantage in international competition.

The idea of an undeveloped Europe is of decided interest to us, however, from another point of view. With such a field for development as we have had at home we have become experts in seeing new opportunities, and have become quick to disregard precedent and long-established conditions, and to perceive the advantages which may come from new combinations, modern equipment, and specialized work. An undeveloped Europe, therefore, offers a field in which this special genius of ours may profitably exploit some of the same industrial methods and policies which have proven so successful at home. This is not a mere theory. There are already notable illustrations of success in exactly that sort of thing, and there are promises of many more successes to come. Our great electrical companies have established works in England, France, Germany, and Russia. There are tool-works in Germany equipped with complete sets of American models, American machines, and Yankee foremen. Important portions of London interurban transportation systems have come into American hands and are feeling the vivifying influence of American ideas. The electric street-railroads and

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lighting-plants in a number of important cities of France are controlled by American interests, and the transportation system of Paris itself is a field which is tempting close investigation on behalf of American capital.

Some attention has heretofore been drawn to the extraordinary balance in America's favor which the last half dozen years of foreign trade has built up. The settlement by Europe of these annual trade balances is a problem which has been outlined, and attention has been called to the opinion of many European and not a few American financiers that ultimately the settlement of this trade balance must be effected by America investing in European interests and securities. A few years ago it would have sounded absurd to have talked of the possibility of American capital seeking investment in Europe. The idea is hardly yet so familiar as to make it seem reasonable. It is hard to believe that America, with her endless opportunities, unparalleled richness of natural resources, and admitted pre-eminence in industrial methods, should not continue for a long time to be a more profitable field for the investment of capital than can possibly be found in Europe. For us the disadvantages of distance, of foreign laws and customs, and of competition with great funds of accumulated capital have heretofore

seemed to preclude any possibility of our becoming investors across the Atlantic. But this annual trade balance which we have been piling up has been so extraordinary in itself that it seems likely to lead to other unusual features; and among those it now seems easily possible that we shall see American capital become an important factor in European fields.

Naturally, few Americans have gone to Europe to look for investment opportunities. Travellers' descriptions have been endless, but few of them have told us of European conditions from an American investor's point of view. We have in times past had a good many financiers go abroad to convince European capitalists of the credit and good prospects of enterprises that we were developing at home, but it is only within the last few months that Americans have been going abroad to measure investment possibilities, to investigate offerings of securities, and to look into opportunities for profit in new developments, new combinations, and the application of new methods.

If a trade balance of some hundreds of millions of dollars is to be settled by our taking European securities, it becomes decidedly interesting for us to begin to study, from an investor's point of view, the economic conditions prevailing there. It is

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from such a point of view that I intend to present some of the points that appealed to me as particularly interesting in several of the European countries.

The countries forming the Triple Alliance — Germany, Austria-Hungary, and Italy — offer the most widely divergent industrial conditions; but because of political bonds there has been a close relation between the financial and commercial interests of the three nations, and an interchange of capital, so they have come to form a natural industrial group as well as a political alliance.

Of all the European powers the industrial newness of Italy strikes one most sharply. That is true both as to actual lack of development, and from the fact that one naturally associates Roman surroundings with age. We are inclined to think of Italy as a land of cathedrals and art-galleries, blue skies and sunshine, where the rich go for pleasure, and the poor stay to beg; and the industrial importance of the country is not a subject that many of our own people have considered deeply. While Italy abounds in glorious history, and is a land of great memories, it has in modern times held a comparatively small place in the industrial history of the world. Developments are going on there now, however, particularly in the north,

which promise to bring the measure of Italy's industrial importance much higher up in the column of totals. Southern Italy is hopelessly handicapped for a long time to come by the system of land-ownership, the hardships of taxes, the extreme poverty of the people, and their consequent deterioration from an industrial point of view, and by excessive illiteracy. The elementary and secondary schools there are incredibly bad; teaching is the least honored of the learned professions. Conditions are far better in the north. There are found small individual ownership of land, and an independence and thrift, in striking contrast to the south. The people take more readily to industrial pursuits, too, and there is really striking progress in the recent upbuilding of many industries.

Prior to 1871, when church and state were separated, and the present political *régime* inaugurated, the industries of Italy were comparatively insignificant, viewed from the standpoint of international trade. The population was largely given up to agriculture. In the thirty years that have elapsed there has been notable industrial growth, and that growth is now going forward at a steadily accelerated pace. One-third of all the silk used in the world comes from Italy. Nearly as great progress has been made in the

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weaving and spinning of the silk cloth as in the production of raw silk. In three years the exports of woven silk have risen from \$65,000,000 to \$100,000,000. Great progress has also been made in cotton-weaving. The industry did not exist twenty-five years ago, while now it employs 80,000 men and produces annually an output valued at \$60,000,000.

The cheap labor of Italy and its comparative efficiency have attracted English manufacturers. Two or three of the best known of the English glove-makers have large factories in Naples. I saw gloves there being turned out by the thousands, stamped with the imprint of well-known English names, and completed by the addition of buttons bearing the legend “ Made in England ” — a bit of commercial artifice that must be confusing to customs officials when they later attempt to classify England’s exports. Endless cartons of beautifully fashioned artificial flowers, believed by the people who buy them to have been created by the deft touch of Parisian fingers, are likewise made in Naples, and later have 100 per cent or more added to their value by having French names pasted on the boxes.

The industrial development of Italy has two distressing impediments. One is the high rate of taxes, the other the high cost

of fuel. In army-ridden Europe there is no other country where the *per capita* cost of maintaining the military establishment is so great as it is in Italy, and no other country where the people are so little able to afford the glories of armies in the field and of fleets at sea. Italy as a nation is out of her rank in attempting to maintain a first-class war footing, and, until her military expenditures are reduced to a point commensurate with her population and wealth the military burden will be an almost insurmountable obstacle to the desire of her commercial citizens to have the country take foremost rank as a producing nation.

A hindrance to industrial growth, second in importance to that of the demand of the war-chests, is the lack of coal. All the coal used on the railroads and in the factories is shipped from other countries, and Italy's trade balance is reduced each year by the full amount of her fuel bill. This not only has a most unfavorable effect on her balance of trade, but it means that the cost of fuel in Italy is very much higher than is the cost in any of the countries with which she must compete industrially. At Italian seaports the price of coal ranges from \$7 to \$10 a ton. In Milan manufacturers pay \$12 a ton for coal for which German manufacturers pay \$6, which the English manufacturer can

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get for \$4, and which is laid down at many factories in the United States at \$2.50 a ton. There is only one locality in the kingdom where coal is mined, and the output is small and the quality poor.

There seems to be more prospect ahead for Italian industries being relieved from the burden of high fuel charges than from the weight of excessive military taxes. Italy abounds in water-power, and there is just now a great awakening in regard to the development of that latent energy. Manufacturers are coming to understand that future development will most likely be reached along lines of securing power at low cost. Italy is remarkably favored with water-power. To the north are the Alps, and the Apennines run far south along the centre of the Peninsula. The country is an immense watershed, down which innumerable streams flow, none of them very large, but all falling a great distance, and developing in their descent a prodigious amount of power. Engineers who have made a study of the situation estimate that the rivers of Italy can be made to furnish more than 2,500,000 horse-power, which has a value equivalent to coal now costing \$125,000,000. More than 1000 companies have been organized in the last few years to erect power plants along these streams.

Italy is lacking in any large fund of capital available for aiding her industrial development. Investment in stock companies has not yet become popular. The Italian is extremely distrustful in finance; his distrust has a fundamental basis in a fear even of banks and bank accounts. He wants to keep his property out of the sight of a tax-gatherer, and he does not put great dependence in the commercial signature of his fellow. The use of bank-checks in current daily business is almost unknown. There are large savings-bank deposits, but the people have not reached a point in commercial development where they will give their capital an effective aggregate by investment in corporate securities. Before Italy cut loose from France and joined her political fortunes with Austria and Germany, French capital had looked with favor upon Italian enterprises. After the political changes of 1887, the Italian exports to France dropped from \$81,000,000 to \$34,000,000, and have continued at about the lower figure, and French capital ceased to flow into Italian investments. That has in a measure been compensated for by the interest that German capital has taken in financial operations, but Germany's own industrial development went on so rapidly and has now come to so many misfortunes that

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the present offering of German capital is much restricted.

Italy would look with great favor upon any project to interest American capitalists in her industrial development, and undoubtedly a field is there offered which will bear some inspection at the hands of our financiers. In certain lines there is no possibility of Italy successfully competing with the United States, England, and Germany. The lack of coal will leave the country out of the race in iron and steel manufactures. In those lines of industry, however, where cheap labor is required, and where the cost of raw material is favorable, there promises to be much success. The labor is skilful and effective, and manufacturers are not slow in accepting mechanical improvements and adopting modern methods. The fact that the country is not on a gold basis is a drawback. Italian financiers are anxious to establish the gold standard. The Finance Minister, Signor Chimirri, told me that he had strong hopes of success in that direction. It is recognized that the present uncertainty regarding the value of the Italian money standard acts as a serious deterrent to the investment of foreign capital in the country. An excessive issue of bank-notes, a survival of former days, is the main reason for the depreciation of the currency, but the Gov-

ernment now has a definite programme for reducing the bank-note circulation by a fixed amount each year. Political conditions are in many respects most unsatisfactory. In many sections there is distressing poverty; and the high price for food, made necessary by heavy taxation, brings dire hardships into the lives of the common people. It has been estimated that the average Italian laborer has 310 pounds of cereal food during the year, which is twenty-five per cent less than is given the inmate of an English workhouse. Socialism is rampant, and the Government must be constantly on the alert to prevent uprising. Judging by the precautions taken, there are sections of the country at all times on the point of an outbreak against constituted authority, inspired by no very definite political reasons and due more to the desperation of hunger than to ideas in political opposition to the Government. The people are under the domination of an army which takes not only the best blood of the country, but imposes an almost unbearable weight of taxation on those left to carry the burden. The army and navy alone absorb six per cent of the country's income; or in other words, out of every \$100 earned in Italy, \$6 is taken by the Government in support of the military establishment.

The social and political unrest, the bur-

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dens of taxation, and the uncertain money standard must cause foreign capital to hesitate even before opportunities that may look alluring, while those same impediments, together with a lack of some of the most essential raw materials and of home capital, must make the further industrial development of the country slow when measured by our standards. The United States has no need to fear Italian competition in the world's markets in any of the great staples of our manufactures. There is, however, easy possibility of greatly increasing our sales to Italy, particularly if her industrial development goes forward along lines which permit her to sell to us some commodities which we can better buy than produce.

In the closing days of his public career Prince Bismarck found occasion to say, “Poor Austria, I fear her days are numbered.” Let us hope the Chancellor did not speak prophetically, but he certainly spoke with profound perception of the cross-drifts which are the despair of the statesmen of Austria-Hungary. One of the most restive, bewildering, and bewildered state-unions in existence is the Dual Monarchy, a country at once one and divided, a people ready to overturn their government for a language preference, a country of twenty tongues,

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each one berating the other, a country the one-half of which puts trade barriers in the way of the other half; Hungary jealous of Austria, and Austria unable to forgive Hungary its superior prosperity. The monarchy is made up of conglomerate peoples, unable to act and think together, and habitually threatening to act and think apart. In no other country of Europe are industrial conditions so complicated by politics, hereditary jealousies, class distinctions, church influences, and a babel of tongues that cannot be harmonized either in speech or sentiments. For the present the personality of the venerable Franz Joseph holds together these varied elements. What will come to the Dual Monarchy after Franz Joseph is a question never out of the mind of any European statesman.

It is in the midst of this political turmoil that the idea was born for a European tariff alliance against America. It is here that one finds the keenest antagonism toward commercial America, and the most earnest efforts to block by legislation a commercial invasion that could not be met by methods of superior industrial merit.

The president of the Chamber of Commerce at Vienna explained to me the Austrian position on this matter of tariff discrimination against the United States.

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“America is destined, beyond question, to be a most powerful country,” said he. “We regard it as the most dangerous competitor in all our markets. The marrow and bone of her prosperity we believe to be her protective tariff, which has enabled her to build up her industries and develop her resources. The Steel Trust shows us what we have to expect in the future. We shall have to adopt the same policy, and we will do it. Whenever we discover that American competition is hurting any of our industries, we shall certainly shut out America if we can. If we do not succeed in making a satisfactory treaty with the United States, we shall look to Russia and Australia for the raw materials we may need, for to those countries we shall be able to sell the products of our industry.”

These words must not be considered as the expression of a private citizen, but as having official character, for the Chamber of Commerce is an official advisory institution for the aid of the government in the preparation of legislation. The best judgment in Europe and America is, I believe, pretty well agreed on the futility of a European tariff alliance against the United States. Not one of our ambassadors or ministers believes it is a feasible programme for the European States, no matter how antagon-

istic European statesmen may become toward us on account of our commercial success in foreign fields. I found no important banker or manufacturer who thought it probable that the conflicting interests of the various States could be brought to any harmonious point of view from which to formulate such a tariff. Undoubtedly it is a dream in the minds of many people who have not a clear idea of the difficulties involved, but certainly the best judgment of the two continents seems against the feasibility of the idea. Conflicting interests can never be harmonized so that an agreement will be reached among the nations. Indeed, conflicting interests in the Dual Monarchy itself can probably never be harmonized so as to support Count Goluchowski's programme. Austria is a manufacturing country. Her people have highly developed artistic faculties, and a deftness and skill which make her a leader in certain of the finer lines of production, and she has some standing as a producer of iron, steel, and machinery. Hungary, on the other hand, is as yet almost altogether an agricultural country. Austria wants high tariff and cheap food; Hungary would like to exclude foreign food and have the advantage of cheap foreign manufactures. The two parts of the monarchy are held together by a slender thread, and the fretful

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people that compose the two nations will only agree that that bond may hold them for ten years at a time. The Ausgleich expired in 1897, and for four years the two States have wrangled over its renewal, industry and commerce being all that time greatly perturbed.

If we look at Austria as a competitor for the world's trade, it is easy to see that there is small occasion for us to be alarmed. The obstacles which political conditions set up in the way of industrial progress are almost insurmountable. Everywhere in Europe there is found a weight of taxes bearing on industry much greater than with us. In Austria this is notably so. A Viennese engineer who builds iron bridges on a large scale told me something of the difficulties an Austrian manufacturer has to face as a result of the visits of the tax-gatherer:

“In calculating the cost of a piece of work,” he said, “there are three important elements: the cost of the material, the cost of labor, and the allowance for taxation. Our tax laws are somewhat complicated, but I have found that an approximation, which is close, will amount to sixty per cent of the labor cost, which we must add for taxes.”

If manufacturers in this country were obliged to add to the cost of their products

sixty per cent of what they pay for the labor that enters into them, as a contribution to federal taxation, our success in the world's competition would be slow.

In Vienna I met an American who is at the head of one of the large boiler-works in this country. He had been interested in making comparisons of the cost of labor and of the methods of work in the Viennese factories, and I found him amazed at the wasteful methods and the high labor-cost that resulted from the Austrian manufacturers failing to use modern machinery.

"I was informed in one shop," he told me, "that a boiler of about 150 horse-power cost for labor alone \$750. That boiler would have been built in an up-to-date shop in America for a labor-cost of \$150. In the United States three workmen with modern tools would accomplish as much in one day as would be done by four workmen in a Vienna shop working one week. The cost of the labor in the United States would be about \$5, the men receiving for this class of rough work a little more than \$1.50 a day. Of the four men in the Vienna shop, two would receive eighty cents a day, one sixty cents, and one forty cents, but even at those low wages the total labor cost there would be \$15.60 against about \$5 with us. I found an almost total absence of labor-

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saving machinery in some of the largest shops in Vienna — plates were being handled by hand; there were no riveting machines, no travelling cranes, or modern hoists.”

I asked a large manufacturer in Vienna why he did not introduce modern labor-saving machinery. He had been in American shops and was fairly well posted on what was possible in the way of reducing the amount of labor entering into his product. His line of reasoning was interesting:

“You will not find the latest labor-saving machinery here,” he said, “because labor is so cheap that it does not pay to have the best machinery as it does with you. If we invest money in labor-saving machinery, the interest on the cost of that investment goes on every day in the year, and every succeeding year, whether times are good or bad and orders many or few. With our cheap labor it is different. When we have a rush of work we can employ more men; in slack seasons we can discharge them. The trouble with labor-saving machinery is that you cannot discharge it when you have no work for it to do.”

Labor waste is not confined to industrial life by any means. Austria furnishes endless illustration of a situation which is found in about all the European countries, but which is in its highest development in Italy,

Austria, and Russia. In those countries the greatest ingenuity has been exercised in devising positions where the service performed is useless. Everywhere flunkeys stand ready to perform unnecessary services for one. You are not given an opportunity even to open the door — a retainer always stands ready to do it for you, and then hold out his hand. If you call at a bank or public office, the *concierge* opens the door with great obsequiousness and hands you over to a guide, who shows you to the door of the room sought, where a flunkey takes your hat and coat, another your card, and still another ushers you in. On leaving, it is advisable to remember all these hard-working citizens with a pittance if you intend to make another visit and desire easy access. All this is typical of the way labor is wasted in the greater part of the Continent of Europe. The thing seems to be done on principle, and to be generally approved on the ground that that system is best which keeps the most people employed. Any man who can create two jobs where there was only one job before, appears to be regarded as a public benefactor. The street-sprinkling carts in Vienna make a good illustration. A hose about six feet long is attached to the rear of the cart, and a rope about ten feet long is tied to the end of the hose. One

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man drives the cart while another walks behind holding the rope and swinging the hose from side to side. If an American should try to introduce sprinkling-carts that could be operated by the driver, he would certainly be unpopular. “Why rob a poor man of his job? There is not enough work now to go round, and labor is cheap. It’s a small matter. These people are not able to do anything else; they have no trade, and if you introduce a device which renders their help unnecessary you simply force them to starve and become a burden upon the State.” That is the kind of Chinese economics which I heard from educated men in various cities on the Continent. It did not seem to occur to them that work makes work; that the amount of work which the world wants done and is ready to pay for is capable of indefinite increase, or that habits of slothful and unnecessary work must breed a people incapable of energy and enterprise. It takes two men to handle a plough in Europe, not because one man really cannot do it alone, but because public sentiment approves the employment of an extra man wherever the slightest excuse can be found for him.

It needs only the period covered by the memory of a man still young to make the comparison which will show that the industrial life of Germany is in its beginnings.

The picture of Germany twenty-five years ago, contrasted with the industrial Germany of to-day, shows a genius for work, a determination for development, and a rapidity of progress which can be matched nowhere in the world, unless it is in the United States. The Germany of thirty-five years ago bore almost as little relation to the Germany of to-day as did some portions of the United States to our present condition.

A great plain covering the entire north and east of the country where small crops were grown at high cost and with great labor; a table-land in the south almost as barren; a few seaports, in only two of which was there entrance for vessels of the deepest draught; a large system of shallow rivers; fertile valleys in the south and west, but covering not over one-tenth of the area of the country; large deposits of low-grade iron ore; a coal area limited in extent with deep-lying seams from which came a product of poor quality; small deposits of copper, lead, and zinc; a large forest in the south; a small commerce; a manufacturing industry hardly worthy of the name; a disordered currency, a disorganized banking system, a deranged financial system, a confused foreign policy; a people divided into twenty-three states with only the tie of a common customs union, the coercion of the

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Prussian hegemony, and a common language and literature — such were the materials of thirty-five years ago, out of which modern Germany was to be constructed.

A population numbering 56,000,000, firmly united into a great national state; a system of internal communication the second largest in the world; a foreign commerce inferior only to that of England and the United States, which has reached out to the uttermost parts of the world in its conquest of markets, and has won its place in the face of long-standing commercial connections; a system of industry which has utilized to the full every resource the nation possessed, which has brought the waste places under cultivation, and by careful methods of scientific agriculture has developed the yield of the soil more than threefold, creating *de novo* the beet-sugar industry; a system which has quadrupled the production of coal and tripled the production of iron; which has developed the greatest chemical trade, the second largest electrical industries, the third textile, iron, and steel industries, and the second shipping system of the whole world; which has tripled the city population, reduced a large and threatening emigration to insignificant proportions, raised wages, increased the value of land, and tripled the revenues of the State; a strong, self-reliant,

progressive, prosperous nation — such is modern Germany, the result of thirty years of nation-building.

Never before in the industrial history of the world, unless we except the victory of the same race in the Low Countries over the waves and tides of the German Ocean, has such success been achieved against such heavy odds. England has succeeded, but England was never cursed by invasion and civil war. England's soil is fertile. Her coasts are indented with fine harbors. Her security made her the home of the great inventions, and those inventions gave her the commerce of the world for more than three-quarters of the nineteenth century. The United States has succeeded, but the United States was blessed with the richest heritage of natural wealth that ever fell to the lot of any people. Planted in the midst of a continent, with a soil of extraordinary richness; with the coal seams lying open on the river-banks, and iron only needed to be quarried from the surface; with river systems penetrating every part of the country, and a chain of lakes to supplement the rivers; with great harbors to receive and send out foreign trade, and with the hungry multitudes of Europe in sore need of our surplus — with all these natural advantages, and with only one serious catastrophe to our na-

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tional development for eighty years, it is no wonder we have succeeded.

Germany had none of these advantages. Germany must needs dredge her seaports, deepen her rivers, supply her deficiencies in raw material by importation, import the machinery for her factories, and the technical skill to direct the machinery; build a railroad system to carry her manufactured goods long distances to the sea-coast; and when she has done all this must fight her way into markets which England and France had long since occupied. To do all this while guarding against invasion on both frontiers, and bearing a heavy burden of taxation and military service, to succeed with no other aids than those of the national genius for hard work and the national ambition for a great and commanding place among nations, and to win such success in the face of such difficulties is an achievement before which both England and America should uncover in admiration and surprise. If the measure of success which a nation achieves over adverse circumstances is the test of greatness, then Germany is the greatest nation in the world.

I reached Germany fresh from a study of most of the other Continental countries. In none of them had I found anything to lessen the conviction with which every American

goes abroad, that his own country is superior in every respect to all other nations. Most of those nations are in one respect or another unmodern and unprogressive. They are succeeding slowly, and in few of the countries are the whole people united in an effort to achieve success. Their industrial regeneration is only just beginning: the United States has little to learn from them.

But in Germany we find not only a state with apparently a great future, but a state which has begun to realize that future in a thoroughly modern way. The system of education, elementary, secondary, and university, certainly rivals our own, and is probably superior to it. It is a system which leaves less than three per cent of the population illiterate, and sifts out the brightest minds and trains them for the service of the State. The State in turn is eager and anxious to avail itself of the services of men who have won intellectual distinction. There is a system of commercial education whose founders realized that successfully to deal with foreigners requires a speaking and writing knowledge of their language. There is a national and municipal administration which in their effectiveness and absolute integrity must bring shame to the resident of almost any American city when he compares them with conditions surrounding him at

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home. The Government has encouraged commerce and foreign trade with great intelligence. It has established the gold standard and so organized the Reichsbank, that the mechanism of exchange has the foundation of secure confidence. It has aided in the establishment of German banks abroad, and placed German traders in the position of distinct advantage in pushing their commercial conquests. A trained consular service has been developed, composed of men who speak the language of the country to which they are sent, and who use the language to find out whatever may be of service to the German exporter.

The Government has pursued a consistent policy in its trade relations and commercial treaties, which has all along been wisely adapted to the needs of the national economy. While the industries were getting a foothold, they were protected by high duties. When their development had reached the stage of independence, and when their chief need was new markets, the Government made concessions to neighboring States in the customs tariff, and, by a series of treaties completed in 1893, admitted raw materials at low duties in return for similar privileges conceded to German manufactured exports. The Government early saw that private railway management in Germany was unfav-

vorable to the export trade, because it had not learned the lesson of scientific rate-making, which we in the United States have only in recent years mastered. Perceiving this fact, the German Government took most of the private lines, and added to them until, in 1901, out of 30,777 miles of railway more than 27,000 belonged to the State. In full control of the railway system, the State administration has worked out, very successfully, the basic principles of rate-making, to increase the rates with the value of the freight. It has granted low rates on iron and coal, to which concessions the iron and steel industry of Westphalia owes in large measure its prosperity. The German Government also has not hesitated to use the bounty system to build up the national industries. The beet-sugar industry owes its existence quite as much to the aid of the State as to the painstaking care of the owner and scientist, and in a single year the exports of sugar and glucose to Great Britain from Germany have amounted to more than \$50,000,000. The German merchant marine has been intelligently assisted by liberal subsidies. I found among business men a quite general agreement as to the great benefits which industry and commerce had derived from subsidies.

I asked Mr. Louis J. Magee, who might

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be called an American-German, since he was born and educated in this country, but has spent twelve years in Germany as the managing director of the Union Electrical Gesellschaft, what in his opinion were the relative advantages of Germany and America. His reply is suggestive: “ Most Americans are mistaken when they imagine that America is much ahead of Germany in manufacturing. It is six of one and half a dozen of the other. In some lines the United States has the advantage and is sending in goods to Germany. This is true of typewriters, bicycles, and of some other specialties requiring interchangeable parts. It is hardly true that Germany cannot make these things as well as America, but rather that it is more convenient and cheaper for Germany to buy them of America than make them. Our company, for instance, might make much of the machinery that we use, but it has relations with the parent company in America, and so buys the things from America. It should be noted also that Germany excels in some specialties; for example, the Mauser rifle. It is the best in the world, and Germany is exporting it to all countries. In the same way your laboratories import certain chemicals and certain instruments from Germany, not because America cannot make them, but because they are cheaply made in

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Germany and that is the best place to get them. Americans make a great mistake in supposing that Germany is not up to date. Every German manufacturer knows exactly what is being done in his line in the United States, and knows what kind of machinery is being used. If he does not use it himself he has a reason that is satisfactory to him. The Germans are more conservative than the Americans.

“This fact can be illustrated, perhaps, by the automobile cab system. A superficial observer, knowing that these cabs were in use in American cities, would draw the conclusion that Germany was not so progressive as America. But if he happened to know that the companies in Boston and Chicago had been financially unsuccessful, his conclusion might not be so unfavorable to the German. The German has considered the advantages of the electric cab very carefully, and has not introduced them in the German cities simply because he has decided that they would not pay.”

Somewhat along this line Mr. Magee spoke of the Germans' ability in the field of science, and commended their habit of stimulating and encouraging independent investigation. He regarded the Germans in this respect as superior to the Americans. “Americans are brilliant,” he said, “and

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many splendid ideas — which the Germans call epoch-making — such as the cotton-gin, have come spontaneously. In the main, however, this is not the case. The great discoveries of the world have come, as a rule, as the result of patient effort and study. In this the Germans are adepts. In Germany every encouragement is given to a man to devote time and thought to new ways of doing things.” Mr. Magee spoke of the Nernst lamp in this connection. This discovery of a German professor will make it possible, it is believed, to secure illumination from electricity with only half of the current used that is now necessary. It will throw into the hands of many thousands of people the possibility of using this form of illumination. “It is quite possible,” Mr. Magee said, “that improvements on this lamp may come from America. It will still be the Nernst lamp, however. What I want to see is a Nernst in America.” During the last few years the reports of scientific discoveries contained in the American scientific journals have contained hardly an American name to act as a landmark. The names of the chief men in science to-day are, with almost no exceptions, men of foreign birth or descent.

“The difference,” said Mr. Magee, “lies in the fact that the Germans are patient,

studious, thorough people, and they go to the bottom of things. The Americans, on the other hand, are more or less superficial. They are brilliant, but they have n't time to look at a subject from all sides and probe into it deeply as the Germans do. In science, particularly, there is n't the inducement that is offered to investigators here in this country. In other fields the same conditions hold true. In political economy, for instance, you find the same thing. A man learns a little from his Walker and his Adam Smith in college, but he does not, as the Germans do, have pointed out to him the exact places where the requirements are not fulfilled, where the shoe pinches, and then set to work to gather all the data bearing on that particular part of the problem, in order that he may find a solution of the difficulty."

One is at once impressed with the fact that the Germans have been quicker than other nations to take advantage of improved machinery and methods. An inspection of our exports to Germany in the last half dozen years shows an extremely satisfactory increase in our sales of manufactured goods, but an analysis of the character of those manufactures brings out the fact that a large part has been in labor-saving machines, whose economics have at once been turned against us. There are some shops in Ger-

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many that are quite as admirably fitted with modern machinery as would be corresponding shops with us; and with such superior equipment, and with labor costing little if any more than half what our labor is paid, the German manufacture will make us look to our laurels.

It is true that present economic conditions in Germany are far from satisfactory. Germany has gone ahead under too great a pressure. The pendulum has swung too far and is swinging back. There has for some months been a marked depression in many manufacturing lines, and conditions have prevailed that have caused apprehension and loss. The German banks do not follow the conservative English and American custom regarding the promotion of industrial enterprises, and some of them have become involved in the fate of corporations which they have promoted and whose securities they have sold to their clients. I believe the unsatisfactory situation in Germany, however, is only a reaction from too rapid progress; the fundamental conditions are sound, and in the world's markets we are pretty sure to find Germany one of our most able competitors.

While the conditions surrounding investments in Germany are in many respects much better than in Italy or Austria-Hungary, the

superior conditions are compensated by lower interest returns. The Germans are wide-awake financiers, as well as manufacturers, and the opportunity for American capitalists to teach them lessons is not as good as in most of the other European countries. In some respects we could learn a good deal that would be of advantage to our own investment circles from the German practice. A code of corporation laws has been enacted that has many points of great excellence, but the Government has shown its paternalism to a great degree in its effort to control operations on the stock and produce exchanges, and business has been much hampered from that cause.

Kaiser Wilhelm has said — and industrial Germany agrees with him — that the future of the German nation lies on the sea. Germany is a poor country. Her coal mines are, in some places, 3,000 feet deep. Her iron ores must be supplemented from the richer deposits of Spain and Sweden. As population increases, Germany must import an increasing proportion of her food-supply. Her raw silk and cotton must be imported, and in fact she is independent in no single raw material. Her people must levy upon the whole world for their sustenance and to maintain their industries. To such a nation foreign commerce is as the breath of life.

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If four continents should sink into the sea, the United States would still live. But cut off Germany from her foreign trade, and she must perish.

To sum up the situation, so far as the nations of the Triple Alliance are concerned, we see that Italy and the Dual Monarchy are not likely to become formidable competitors of ours in the world's markets; that Germany is endowed with a spirit and ambition which will probably make her our keenest rival, although we have clear advantages in cheap raw materials. If we turn our attention toward investments in these countries, attractive opportunities will be found in Italy, but hampered by an uncertain currency standard and excessive taxation. Opportunity for the introduction of improved methods is even greater in Austria, but political uncertainties and racial antagonism more than counteract that advantage, and the money standard is quite as uncertain as in Italy. There is much greater investment safety in Germany, and that, I believe is true, in spite of the headlong declines which securities have made on the German exchanges.

III. ENGLAND, FRANCE, AND RUSSIA

It is in Great Britain that we find in its fullest development the effect of the American commercial invasion of the world's markets. It is true that American competition has been making notable inroads into the commerce of all the countries of Europe. But important as is the effect which has been produced upon commercial conditions in the Continental countries, that result is almost insignificant when compared with the consequence of this competition in Great Britain. From the beginning of our history England has formed our most important market, and for two generations at least we have been the largest customers for English products. In the last half dozen years a change has taken place in the trade balance between the two nations which is, perhaps, the most notable single commercial event to be recorded in the last decade. We have been steadily reducing our purchases from the mother-country; we have been making astounding increases in our sales to her. Comparing, for instance, the change which has taken place in the trade movement between the two nations in the last half dozen years we see that our annual purchases from the United Kingdom have dropped \$16,000,-

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ooo, standing last year at \$143,000,000. In the same period our sales to Great Britain nearly doubled, going up from \$387,000,000 in 1895 to \$631,000,000 last year. This change in the annual trade balance, showing for us a more favorable total by \$260,000,000 than we had six years ago, is a change of such import as can only mean revolutionary transformation in the industrial life of the two nations. These figures are so significant that they need to be dwelt on somewhat, to fix in the mind their importance. Six years ago we sold to Great Britain \$228,000,000 more than we bought. Last year we sold to her \$488,000,000 more than our purchases. In every business day last year we sent to her \$1,500,000 more than we bought. For every dollar's worth of goods we bought we sold her four dollars and forty-one cents' worth of our products.

The relative importance of the increase in our trade with Great Britain is shown when we compare it with the increase which we have made in our sales to all the rest of Europe. Noting that our favorable balance in the trade with Great Britain last year showed an increase of \$488,000,000 over the record of 1895, we find that that figure compares with an increase in the same period of \$219,000,000 in our trade with all Continental Europe.

Such figures as these make it easy to see why the industries of Great Britain have more keenly felt our competition than has the rest of Europe, but even these statistics by no means measure in its full significance the effect upon British commerce of the "American invasion."

The nineteenth century may well be said to have been the century of Great Britain's commercial supremacy. During that hundred years the industries of the country stood pre-eminent in almost every line of manufacturing. British manufacturers commanded completely their domestic field, but they did much more than that. They were in easy control of the greater part of the world's commerce in manufactured products. Not only have their workshops held a commanding position, but pre-eminence has been made more secure by control, in large measure, of the commercial fleets of the world.

When our own manufacturers began seriously to reach out a few years ago for foreign trade, there were few of them with the hardihood to attempt to meet British competition in the home field. What we did do was successfully to compete at points so far distant from the British factories that our own producers were little handicapped in the way of freight charges. We successfully entered the South African gold-fields

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and supplied most of the machinery for operating the deep mines of the Rand. We went into the harvest fields of almost every British colony and sold agricultural implements to cultivate and gather their grain. We began successfully to compete in bridge-building on the pioneer railroads of Africa, and then we supplied those railways with locomotives, as we did also the government lines of India and the Far East. Our success extended rapidly, and it soon became evident that the political ties of Great Britain's colonies were not in themselves sufficient to bind to her their trade. For a good many years English contractors had things their own way in railroad-building in the British colonies. One day we shocked them when their own best bid of 15 guineas a ton for constructing the Atbara Bridge was met by an American bid of £10 13s. 6d., and their time of twenty-six weeks was cut by the American contractor to fourteen weeks. They were soon still more surprised when the bids for the Gokteik viaduct in Burma were opened. This was a much more important work. The best English bid was £26 10s. per ton, with three years' time to complete the job. Americans took the contract at £15 a ton and completed the work in twelve months. The Ugandy viaducts, still more important in size, were built by American contractors at

a cost twenty per cent below the English price, and they were completed in forty-six weeks, against the English requirement of 130 weeks.

Such illustrations might be almost indefinitely extended, nor would they need to be confined to bridge-building. Their special importance is in the basis which they formed for a manufacturing competition which drew nearer and nearer to the home market of English manufacturers. Success upon success has attended our efforts to compete industrially with England, until we are at last sending our manufactured goods into the centre of the Englishmen's domestic field. There are English districts whose names have become words in our language synonymous with certain great classes of manufactured goods. We have come to compete successfully in those very fields in their great specialties. It is literally true that we have sold cottons in Manchester, pig-iron in Lancashire, and steel in Sheffield.

Details of this invasion cover a broad field. The changed relations between the industries of the two countries are probably the most pronounced in the production of iron and steel, but in a hundred lines of manufactures statistics tell the same story of great growth in our exports and quiescence or decadence in the corresponding British

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field. Much less than a score of years ago England produced twice as much pig-iron as was produced in the United States. Now we have an output half as much again as England's, in spite of the fact that her own industry has steadily grown. For many years we drew upon England for great stocks of iron. Our early railroads were laid with English rails. Now we are shipping many thousand tons back across the Atlantic to her and to her colonies around the world. The record in iron has been far eclipsed by the development in steel production. We reached a point where we could put unwrought steel into the English markets in successful competition with the steel mills there, and with that as a basis to build on and with the aid of superior mechanical genius we have built up a market of great proportions for almost every line of iron and steel manufactures. We sent to England in a single year 100 locomotives. We have sent numberless stationary engines of all types and sizes, and with them boilers, pipes, pumps and pumping machinery, car-wheels by the thousand, wire and wire nails, metal-working machinery of every type, and great shipments of electrical dynamos and appliances.

One of the industries that has felt most severely the American competition is the tin-

plate trade of South Wales. Ten years ago it was a gigantic industry. It had no thought of competition in the home field and had complete control of the American market. In 1890, 330,000 tons of tin-plates were exported from Wales to America. Soon after that we began turning out, almost in an experimental way, a small product of tin-plate. That production has increased with such rapidity that our manufacturers are practically in control of their home market and have actually landed at Cardiff large shipments of American tin-plate.

England's coal-mines have been one of her most important sources of wealth. They have given to her manufacturers cheap motive power which has been one of their most important advantages. They have propelled the commercial fleets of the world, and their product has formed England's most important export. Coal has been the main support of the shipping industries which have given her so much of her commercial supremacy, constituting, as it has, four-fifths of the weight of all the commodities exported from the British Isles. England owns sixty per cent of the world's steam tonnage, and anything which threatens seriously to alter the established order in freight movements is of great commercial import.

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The foreign-trade returns do not yet show us as a great factor in the world's coal trade. England is still the dominating producer. But while the extent to which our exports have attained is not material, the figures which show the beginning of our entrance into the world's coal markets are in some ways more significant than any others that our foreign trade presents. We are just in the beginning of what is certain to be an economic development of world-wide importance. English authorities themselves recognize this and admit that a new current of trade has been set in motion that will sweep away a lot of old landmarks. Our production of 36,000,000 tons in 1870, increased to 71,000,000 in 1880, to 170,000,000 in 1890, and to 240,965,917 by the end of the century, passing with the closing years Great Britain's production and establishing our coal-fields as the greatest source of supply in the world. The enormous development of our own consumption kept pace with the increase of the product, so that little attention has been turned toward the export trade. Plans are now in hand, however, which will make the development of that export business the dominating feature of our foreign trade within the next few years, and which promise more powerfully to affect British industry than any other

single development that has influenced the trade of the two countries.

The position which we occupy as a source of coal production is of such great importance in any discussion of international trade that it is worth while noting some of its significant features. In 1870 the combined coal production of Great Britain, Germany, France, and Belgium, our chief competitors in Europe, was 176,000,000 tons, about six times our own production of 29,000,000. By 1898 the European output had doubled, those countries producing 352,900,000 tons. But in that same time our output had increased 700 per cent and stood at 218,000,000, or 60 per cent of the total output of Europe, as compared with six and two-thirds per cent in 1870. We have five times the coal area of Europe, 50,000 square miles as compared with 11,000 square miles, and we have in addition 200,000 square miles of lignite and other workable fields in reserve. Our bituminous coal lies near the surface, and most of it can be worked by drift mines above the water-level. European mines are frequently 3000 and sometimes 4000 feet deep. Our seams of coal average twice the thickness of the coal measures of Europe. The result of these conditions is seen in the increasing cost of European coal and the decline in American mine prices. In 1885

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the average price of European mine coal was \$1.62 per ton, and in the United States \$1.58. Our methods were less skilful and the superior advantages of the mines in the United States were not yet manifest. In 1899, however, the mine price of European coal had risen to \$1.96, and in the United States the price had fallen to \$1.10, leaving a margin in our favor which operates, at every stage of production, to lower the manufacturing cost of American exports.

Illustrations of our successful competition might be multiplied into a tiresome catalogue. We have secured practical control of the match-making industry; our tobacco manufacturers have become the dominating influence in the English trade situation; half the newspapers of England are printed on American presses or upon presses built on American models in English shops that are branches of the home manufactories. Many of those newspapers are printed on American paper. One of the serious obstacles hampering English industries is illustrated in the paper trade. The freight from the New England paper-mills to the London Docks is less than from the Cardiff mills to the metropolis, and one-half the freight charge on an American shipment is made up of terminal charges incurred in the last twelve miles of the 3000-mile journey.

Probably half the electric cars in the United Kingdom are driven by American-made motors. When the English postal authorities entered the telephone field, no English firm could supply the number of instruments wanted, and the contract went to a Chicago company. England is the home of cheap woollens, but our manufacturers of ready-made clothing are developing an important trade there, compensating for the higher cost of their cloth and the larger wages of their workmen by their advantages in specialized labor and superior methods and machines. Our car builders, who have so specialized the building of freight-cars that the rough timber goes in at one end of the workshop and, almost under the eye of the spectator, comes out at the other end a finished car, found an easy market in competition with old-fashioned methods and hand labor. It is only within a few months that there have been in any English shop machines for boring square holes such as enable our car manufacturers rapidly to mortise timbers in car construction. The work that is done in an instant with a whirl of flying chips was laboriously bored and chiselled out by hand by the English workers. The same advantage in labor-saving wood-working machines enables us to send finished wood-work, sash and doors, for buildings

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at prices which cannot be equalled in the English shops.

Instead of enumerating the fields in which we have met with competitive success, it will be more profitable to analyze in some measure the reasons for our strength and for Great Britain's industrial weaknesses. A few weeks ago I was at a dinner in London at which was gathered a group of men representative of British industrial and commercial life. The conversation was on American competition, and at the conclusion of the discussion the views of these men were summed up in a conclusion with which all agreed, and their verdict, I suppose, may be taken in the main as representing the best commercial judgment in Great Britain. All agreed that there is a serious crisis in British industry, and they grouped the main reasons for it under three heads. The first is the attitude of the English workman in his desire, made effective by the power of trades-unionism, to restrict the output of labor to the lowest possible unit per man; the second is the conservativeness of employers and the hostility of workmen toward the introduction of labor-saving machinery; and the third is “municipal trading,” a phrase which we have not encountered much at home, but which means the activities of municipalities in industrial undertakings, such as the devel-

opment of systems of transportation and communication, the production of light and heat, in a word the municipal control of the utilities. On this last point there would undoubtedly be found wide differences of opinion among high authorities, and it is not my purpose here to enter into a discussion of the questions involved in it. In regard to the first two, however, I believe there is pretty unanimous agreement in the minds of trained observers of the conditions of industrial affairs.

The highest development of labor-unions has been in Great Britain. Much of the earlier growth of these organizations was along correct economic lines, resulted in distinct benefit to organized labor, and was undoubtedly helpful to British industries generally. A few years ago there came into existence a new unionism, which meant a unionism of force, a unionism which carried its points by strikes, and made strikes effective by forcible interference with non-union labor. That new unionism has lately been succeeded by a newer unionism, which has a false economic theory for its foundation, and is, I believe, more than any other single cause, the influence to which can be attributed the present unhappy state of British industry.

British trades-unions embrace nearly

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2,000,000 members. The greater part of this army of organized labor has adopted a false economic theory. They hold that there is a given amount of work to be done in Great Britain, and that, if the day's output of the individual worker is decreased, the result will be an increase in the aggregate number of days' labor. They might not all of them state the proposition in just that way, but the irresistible logic of their position carries them to exactly that point. It is a cardinal principle with the members of most of the labor-unions in England to-day that it is desirable for them to produce with each day's work as small an output per man as it is possible to compel employers to accept. They believe that if a man does only half a given amount of work in a day, two men will have to be employed where one was before, or the job will furnish employment for the one for double the length of time. They have the further uneconomic principle of a minimum wage, which is to be paid to all men employed, without regard to the relative value of their labor. Here is how the situation is viewed by high English authority: With the principle of the minimum wage is conjoined the principle that there shall be no maximum wage; that is to say, if any workman shall induce his employer to offer him higher wages than his

fellows, they at once demand that the same increased wages shall be paid to all of them alike. If the master seeks refuge in improved machinery, the principles of limitation of output and minimum wage are still enforced. The machine must not be allowed to do all it can, any more than the men; nor may it have an attendant, however simple his duties, at any lower rate of wages than that fixed for the skilled artisan who did the work before the machine was introduced. The machine, in short, must not increase output or displace labor. It is broadly argued that men will work their best if it is made worth their while, and not otherwise, but the unions say it shall not be made worth their while. It is not worth the while of a bad workman to do better, for his minimum wage is secure. It is not worth the while of the good workman to put forth his strength or skill, for he would incur odium among his class and could not get increased wages in return.

It hardly seems credible that the great mass of organized labor in England should be so blind to plain economic truths as to believe that their country can maintain its commanding position in the world's competitive markets when labor uses its keenest ingenuity and best endeavors to devise ways to restrict individual production. In-

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stances can be produced indefinitely to support the assertion that such is their belief. Such instances will show quotations from the rules of the organizations, which are devised to restrict labor and discourage energetic workmen. There are many examples of direct official discipline of members who have shown a tendency to turn out more work in a day than the minimum which employers can be forced to accept. I have heard of many cases where men of ambition and energy, who found it difficult to adapt themselves to the easy-going pace which the union prescribes, got very much the worst of it in the contest which always follows a period of active work. Men who start in to turn out a full day's work are frequently directly disciplined by their unions; but if it does not reach that point, they are at least at once put under a social boycott. They are called “sweaters” and “masters' men,” and much ingenuity goes into the devising of ways and means to make their lives miserable and their positions untenable.

Some of the notable illustrations of the spirit of curtailment of production are found in the building trades. Bricklayers in London, for instance, do not average over 400 bricks a day; those employed by the London County Council on public work lay materially less. When it is understood that an

active man can readily lay 1000 bricks a day, and from that up to 1600 it will be seen what a disastrous grip this "go-easy" policy has. We have made, with our exportations running into millions of dollars, great inroads on the English boot and shoe industry. Some of that success can be accounted for by superior machinery and better organization and division of labor, but it is not surprising to find in this, as in a good many other fields where we have made pronounced competitive progress, that there is a clear understanding in the trades-unions controlling the manufacture of boots and shoes that a day's work shall be limited to a certain quantity, and that, should a man do more, his life will be made intolerable. The delusion which the English workman has harbored, that there is a certain amount of work to be done in that industry, and that if every one tries to do as much as he can there will not be work enough to go around, has led him to the natural result of such a fallacy. Chicago factories, usually paying wages from two to three times as high as are ruling in the English factories, are sending enormous exports into the English field. Those exports two years ago were a little over \$500,000; a year ago they passed the million, and last year they were well on toward \$2,000,000.

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Both English builders and workmen are having a most valuable object-lesson in the construction of the great manufacturing plant of the British Westinghouse Company. This company is building a \$5,000,000 plant at Manchester, in which electrical machines of American model are to be built by American methods. One of the finest mechanical plants in the world is being installed, and the manner in which the building operations have been pushed forward have been the marvel of both English builders and workmen. The plant was started under English supervision, but the work dragged along in such hopeless fashion that the task of completing it was, last April, put into the hands of American building contractors. They spent \$3,000,000 in eight months, and managed, though under great difficulty, to show a rapidity of construction such as England had probably in all her history never before seen. These contractors met with the same spirit among the English bricklayers that is to be found everywhere. With all their energy they could not get them up above 800 bricks a day, so they imported some American bricklayers and set them at work on the slowly rising walls. They laid nearly 2000 bricks a day. The pride of the English workmen was at stake, and they abandoned their “go-easy” principles, took off

their coats, and demonstrated that they were as good bricklayers as the imported Americans, but how they will reconcile the record that they made under the eyes of the St. Louis contractors with what they are willing to do under English superintendence is a little difficult to say.

In the coal-mining industry this fallacious policy of trades-unionism takes the form of "stop days," when all the miners stop work without respect to the views of the mine-owners because they believe that by so doing they will restrict production, hold up prices, and so keep up their own wages, which are regulated by a sliding scale based on the price of coal. Their economics have not been broad enough to grasp the prospect of American competition, but their methods are hastening its success.

Since the great machinists' strike of a few years ago conditions in that trade are somewhat better than before that dispute, which ended so disastrously for organized labor. There are still many restrictions imposed upon manufacturers which prevent them from securing anything like the best results from the machinery they introduce. Throughout the mechanical trade the same false notion that the less work a man does in a day the more he leaves to be done by himself or his fellows is particularly aimed

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against labor-saving machinery, and every rule the unions can devise to restrict the output of machinery and increase the labor cost is considered by the unions their material gain.

The second serious embarrassment in which British industries are involved is the difficulty surrounding the introduction of modern labor-saving machines and mechanical methods. In the way of that improvement is the double obstacle of the conservativeness of employers and the opposition of the men. Every one who has studied the English industrial situation will agree unreservedly that labor-saving machinery must be extensively introduced, that the manufacturing plants must be put on mechanical equality with those of America and Germany, before the English manufacturers can hope again to produce at as low a unit of labor-cost as is done in the two competing countries.

Conservatism is a corner-stone of the English character, and it seems particularly pronounced in some of the families which have hereditarily been in control of manufacturing industries. A machine that did satisfactory service for a man's father and grandfather comes to be regarded with a certain veneration. With us there is no recommendation better than that a machine

or method is new. To speak to a manufacturer of a new machine or a new process interests him at once. His mind is open to investigate any improvement that is suggested, and, what is still more important, he has the courage when the value of the improvement is demonstrated, to throw upon the scrap-heap machinery that may have cost him much, and to replace it with machinery which will accomplish more.

The mind of the English manufacturer does not work along these lines. As a rule he has a deep-seated prejudice against a thing that is new; it is not easy to win him over to an examination of a new machine or method, and it is always difficult to induce him to consign to the scrap-heap machines which have for years done him good and profitable service.

The characteristics of conservatism that made the English business man for years combat the introduction of the typewriter, the conservatism which to-day will not permit a telephone within the sacred precincts of the Bank of England, has in its operation in the industrial field cost England dear.

Only the smaller part of the difficulty is over when the manufacturer has grasped the necessity for introducing a machine. His workmen are more prejudiced than he against mechanical innovations. They may

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have seen many examples of machines which, though first taking away the necessity for hand labor, in the end create far more opportunity for labor than at first existed, but those examples have failed to impress them. It is only with the greatest difficulty that labor-saving machines, absolutely essential to the continuance of manufacturing establishments in a position to meet international competition, can be put into operation in the English workshops. Men sometimes refuse altogether to operate machines. The unions enforce restrictions in regard to the number of automatic machines that one workman will be permitted to attend. They go on strike because non-union labor is put at work, and they hamper and embarrass in a hundred ways the manufacturer who wishes to provide modern equipment.

All that looks unreasonable at first, but the antagonistic attitude of English workmen toward labor-saving machinery can be better understood when some of the other restrictions of English labor organizations are comprehended. Each trades-union, believing there is a definite amount of work to do, and hoping to confine all of it of a particular character to its own members, has hedged about entrance into each trade with the greatest of difficulties. The result is

that there is in England the least possible mobility of labor. A man, having learned one trade, finds it almost impossible to draw out of that and enter another. There are minute restrictions regarding apprentices, and the rules provide fines and disciplines for any member who teaches an outsider or permits him to use tools or in any way aids him in learning the rudiments of a trade. When this is understood it will be seen how serious is the position of an English workman, if his place be menaced by the introduction of labor-saving machinery which might force him to seek employment in some other trade.

Conditions as they have been evolved under the rule of the walking delegate and of labor leaders with the shallowest notions of economics are the despair of Englishmen who hope to see their country win back a lost industrial position. Those conditions are most profitable subjects for study by us. We have the beginnings of just the sort of unionism which, in its full development, has brought distressing results on England. There cannot be found in Great Britain any more absurd regulations restricting the output of labor than were in force in the building trades in Chicago for two years, ending in paralyzing the building industry there. We have already grown accustomed to the

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strike which has for its object, not an increase of wages or a reduction of hours, but the imposition of restrictive regulations which would result in a decreased product. So long as our industries can go forward receiving the generous co-operation of labor which is still the rule, we will have an advantage over the countries of Europe in spite of a wage-scale more than double theirs, but that advantage will be menaced if the false conceptions which now rule most of the English labor organizations are ever generally adopted by our own workers.

When we turn to the statistics of trade between the United States and France, we find a condition in sharp contrast to that shown by the English trade returns. France has hardly heard of the American invasion. Her sales last year stood at almost the same point that they did ten years ago. Our sales to France during the same period have shown some increase, but taking the record of last year and comparing it with ten years ago the increase is but \$18,000,000, while we remember that our annual sales to England increased in the last half dozen years \$244,000,000. France has done everything she can with a high protective tariff to make competition difficult to foreign manufacturers. She has done even more than that, with legislation which has in some instances

made foreign competition impossible without any regard to price. The franchises which have recently been granted to many electric railways have provided that all material for their construction and equipment must originate and be manufactured in France.

The exports of France are in the main of a kind that is not affected by the underbidding of foreign makers. French deftness, that artistic touch which the workers of few other nations can equal, gives a permanence to her hold on those foreign markets in which she is interested which has been little affected by those industrial developments that have made such profound impression upon the trade relations among England, Germany, and the United States. In ponderous lines of manufacturing we have reached unquestioned superiority over France, but the same sort of skill which, in the fingers of the Parisian workingwomen produces articles of unapproachable attractiveness, develops in the hands of the mechanic into a deftness which rivals the ingenuity of our best workmen, and leaves us without the advantage in the French market that we have in most of the other markets of the world.

Russia is another country which, in spite of its enormous extent, its important position in the world's politics, and the tradi-

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tionally friendly relations between its peoples and our own, has been little affected by the “American invasion.” With territory covering an eighth of the globe, and a population of 130,000,000, the trade between this greatest of political units and our own country is still comparatively insignificant, and has in the last decade shown no remarkable changes. Our exports have shown no significant increase. Russia is a country of high tariff, and the tendency is toward greater protective restrictions about her domestic industries. That policy has resulted in a number of American manufacturers building important plants within the empire, but it has effectually prevented any remarkable development in our grasp of the Russian markets.

I asked M. de Witte, the Russian Finance Minister, how in his opinion commercial relations between the United States and Russia could be improved.

“Practically, there is nothing that can be done,” he said. “Theoretically, there are unlimited possibilities. If you only had a government that could do things as our government can, a combination of the two countries would bring Europe to our feet. We could absolutely control the markets of the world for meat, bread, and light. I understand, of course, that that is impossible

— impossible from your side. We could do it, but you, with your government, which must always listen to the people and shape its course for political reasons, could not.”

It is possible that the unattainableness of political unity of action which the distinguished Russian deprecated may in effect be in some measure worked out by the combinations — the industrial trusts — which have such great influence in various fields and which are able to project into the commercial battle such effective unified efforts. European economists and industrial leaders are undoubtedly more alarmed over the advantages which they see we are attaining by the aid of these great organizations than over any other point in our position.

I have attempted in these articles to outline some of the weaknesses of our foreign competitors and some of the corresponding points of strength that have developed in our own industries. The list of our advantages is an imposing one, but we cannot expect that all of them will be maintained. Our competitors are by no means blind or without energy or ability. The superiority of our labor, our larger use of machinery, our low taxation and small military burden, the homogeneity of our people, and the great breadth of the domestic field of con-

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sumption, our comparative freedom from militant trades-unionism, the omnipotence with us of the industrial ideal, our freedom from a caste which in other countries prevents the best brain and the most highly trained intellect from engaging in industrial enterprise — all these are advantages which, so long as they hold good, make a broad foundation upon which to rest an industrial development of commanding importance. But unless the United States has some more permanent and fundamental advantage, I should lack the absolute faith which I now have in our development to a lasting commercial supremacy. No small part of our great exports in the last few years has been made up of labor-saving machines, which have at once been turned against us as guns captured from an enemy. From all over Europe deputations of technical experts are journeying to the United States and taking abundant advantage of our good-nature and hospitality. They praise our machines and make drawings of them; they satisfy our pride with appreciations of our methods and they make copious notes. The result is beginning to be seen in many of the workshops of Europe.

There can be no American monopoly of ideas. Civilization gives no patent on technical supremacy. America may lead the

world now in her ingenious application of labor-saving machinery, but there can be no assurance of the permanent continuance of that advantage. Nor can assurance be given that American industrial society will always remain as mobile and as energetic as it is at present. We have already seen trades-unions attempting to force employers to make work rather than to produce wealth. We have seen strikes that have had for their basis only a desire for an increased power of interference, and from that it is not a long step to a position where union labor may be found struggling to restrict individual production. Strikes of that character have so far been successfully combated, but whatever there is left of the spirit that animated them remains a menace to American prosperity.

In our national conception of the dignity of work we have an enormous advantage, but that also may be in danger. Thus far industrial rewards have been made pretty strictly on a merit basis. There have been few sons and nephews of rich families to be taken care of. The future generation can hardly be so free from nepotism in industrial promotion. With the increase of wealth we have already the beginning of a leisure class, and it is not certain that industrial and commercial life can continue to

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command the full service of the best brain and energy that we have. Our military burdens may increase if we measure up to the full extent of our responsibilities as a world-power. Tariff walls may be built against us.

On all these points of present superiority we can have but small assurance of a lasting industrial supremacy, but I feel that a more fundamental reason for belief in such supremacy can be advanced, one which will warrant the conclusion that America must inevitably lead the world in the twentieth-century commercial struggle.

Of all nations the United States has the most unbounded wealth of natural resources. We have hardly comprehended the inevitable advantages which those resources are to give us.

Man's labor the world over is steadily decreasing in importance. It is the age of machinery. The forces of nature are to do man's work. All the world over the cost of production has fallen. The relative importance of labor in the cost of production is lessening; the sway of machinery is increasing. The twentieth century will be the century of machinery. Before it is half completed we may expect to see that sort of human labor that is the painful and laborious exercise of muscle almost supplanted by

automatic machinery directed by trained intelligence. Such development of machine production steadily increases the importance of raw material in the productive process. As the proportion of labor cost decreases, the cost of the raw material forms a larger part of the value of the finished product.

The hand-weaver took a pound of cotton and spent a week in its manipulation. The cloth had to reimburse not only the cost of the pound of cotton, but six days of toil. Machinery was introduced into the industry, a week became an hour, and a hundred yards took the place of one. The price of each yard then had to pay the merest fraction of the cost of the labor which watched the looms. The proportion which the cost of the raw material bore to the cost of the finished product enormously increased. So, under these modern conditions of manufacturing industry, where machinery enters more and more into the manipulation, and the cost of labor forms a constantly decreasing relation to the whole, raw material comes to play a more and more important part. When machinery has fully entered into production, the cost of the crude products makes up the major portion of the cost of the finished article. We can in a measure reduce the cost of raw material by improved meth-

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ods in production and in transportation. The steam hoist and electric drill in the mine, the steam harvester and the steam plough on the farm, the mogul engine and the fifty-ton car, fast steamships of huge tonnage, have all greatly reduced the price of raw material. But no matter how strong the appeal, Mother Nature yields a slow and grudging consent to the efforts of her children to relax her grip. Man's success in cheapening raw material must always fall short of achievements in the realm of manufacture.

Since the cost of material is an increasing part of the price of the product, those producers who can draw upon practically inexhaustible and rich supplies near at hand, who are not obliged to work poor ores and poor lands, or to transport materials great distances—the producers and the nation with those blessings are at tremendous advantage when compared with others whose supplies of material are less rich and less advantageously located.

The age of machinery is also the age of motive power, which is but another way of saying that it is the age of coal. The nation which has the cheapest raw material and the cheapest coal has a permanent and predominant advantage in the world's markets, and it is an advantage which every improvement

in method of manufacture will only serve to emphasize.

When so much is admitted, the conclusion immediately follows that America's industrial future is secured. The United States has the most abundant and the cheapest raw materials and supplies of fuel in the world. Germans and Englishmen may dispute with us over relative advantages in methods, in machinery, in labor, in business organization, and in commercial practice. They may claim that they have much to teach us and that they can soon learn what we have to teach them. American labor may contract the disease of trades-unionism, and American public burdens and social-caste developments may lessen our advantage, but American soil and minerals are eternal, and the resources of no other great power are for one moment to be compared with them.

THE INDUSTRIAL FUTURE

An address delivered before the American Bankers' Association, Washington, October 11, 1905.

WITH almost unmixed satisfaction the members of the American Bankers' Association may contemplate the progress of financial events during the year which has elapsed since their last meeting. Little short of bewildering is the array of statistics which could be presented to demonstrate the rapid growth, sound development, and satisfactory progress made in the commercial, financial, and industrial fields. It is safe to assert that never before was our population so fully employed. Never before was the general level of wages so high, never before has the aggregate volume of industry been as great as it is to-day, never was the future of industrial activity so fully assured by advance orders. Never was the measure of commercial activity so large, and never before did such bountiful harvests meet such eager markets.

The total value of the agricultural crop of the United States will this year exceed by \$500,000,000 the average value of that crop during the last ten years. The money value

on the farms of this season's crop will reach the staggering total of \$3,000,000,000. You of the West and South are close to the true meaning of these figures. To eastern bankers such statistics are merely figures. Their aggregate is so vast that it is difficult to comprehend their true import. You who are closer to the fields, the granaries and the cotton presses, you who with your own eyes see the direct results of this flood of wealth, are more competent to comprehend its significance.

Under the influence of harvests less bountiful than this, following one another with providential regularity, in the last half dozen years, you have seen whole communities change in character. People whose only acquaintance with finance was their knowledge of mortgage payments made to absent creditors have been converted into commonwealths with surplus capital and investment capacity.

The whole great Mississippi Valley gives promise that at some day, distant perhaps, it will be another New England for investments. There is a developing bond market there which is a constant astonishment to eastern dealers. You have seen the farmer in these half dozen years discover the uses of a bank account, deposit his income, pay off his mortgage, accumulate a surplus and

actually become an investor in corporate securities. You have seen that sort of thing multiplied and repeated until the aggregate wealth of the western and southern States has become astounding, even to you who have taken an active part in its growth.

Now on top of these succeeding years of good harvests, good prices, intelligent liquidation of debts and thrifty accumulation of surplus, comes the unprecedented figures of the value of this season's crop yield. Surely America is a country blessed.

The feature of agricultural life in these recent years has been great income, diminishing liabilities and the provision of ample working capital, with all the economies and advantages which ample working capital provides. These conditions have worked marvels in the way of prosperity for the agricultural communities. But prosperity is not confined to the farms. These same influences — large income, diminishing liabilities and the provision of ample working capital — have been factors in the industrial field as well; we can find as great prosperity under shop roofs as in the fields. The days when industrial competition commonly reached a point of destructive severity are largely past. The days when narrowness of outlook and lack of co-ordination led to the wasteful duplication of plants and a vast

unproductive expenditure of capital, have given way to more intelligent management. That destructive competition, that duplication of unproductive expenditure, led with unerring economic force to the industrial combinations which marked the last years of the century recently closed. The forces which led to these combinations were so irresistible that some industries were swept together under hastily considered plans. Combinations were made that were properly open to criticism. Heterogeneous elements were united in ways that meant inevitable friction. Diverse interests were brought together that could not in a day be harmonized. For a time there was doubt as to whether or not true wisdom had been shown by the men who formed these great industrial combinations.

Evidence has now accumulated, I believe, to warrant an answer to that question. We anticipated economies when these combinations were made, but we are only just beginning to understand something of the full advantage which may result from the national organization of certain industries. It took a little time to get these organizations running smoothly. It was not easy to find men with the broad economic insight which the management of such great enterprises required. When a nation meets a crisis men

seem to be raised up ready for the tasks. When this country faced war we produced great military generals. To-day, when the crisis in the management of vast industrial combinations is upon us, we are producing great captains of industry. These managers are not all great administrators any more than the war officers were all great commanders, but I believe the world has never seen the parallel of the business genius which is coming into the work of organizing some of these great industrial combinations. Economies are being brought about that were not conceived of when these organizations were formed. The co-ordination of a whole field of industry, the organization and distribution of plants so that the industry is working under the least possible disadvantage in respect to transportation charges, the combination into such aggregates that expenditures may be made to effect small savings, or in introducing mechanical aids which would be impossible in small plants, but which on a large scale effect remarkable economy — all these developments are answering the question as to the wisdom of these combinations. The results are beginning to appear in the income accounts and balance sheets. The improvement there foreshadowed is, I believe, but an indication of what may yet come.

With the aid of a wealth of raw material and a genius for mechanical manipulation, we developed a few years ago a capacity for industrial competition which startled the world. England, whose supremacy had been of such long standing that she rested in serene assurance, was crowded out of some of the international competitive markets. She was crowded to second place by America and then to third place by Germany. Our exports of manufactures doubled and doubled again and we had to be reckoned with in every international market.

Then came a halt. Europe awoke to the situation. She bought samples of our tools and duplicated them. She sent an army of investigators to study our methods. She arrested us in our commercial conquest. That halt is proving to have been only temporary. Again we are showing unexampled totals in our exports of manufactures. The present figures are substantially exceeding the totals which we made at the time Europe coined the phrase, "a commercial invasion." The reason for this late improvement, this regaining of ground temporarily lost, this making of new records, lies in the perfection of industrial organization which has been made possible by the great combinations. I believe we are just started on a new "commercial invasion." We have the cheapest

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raw material, the most efficient labor, a pre-eminent ability in the adoption of mechanical aids; and all that is combined with what I believe to be transcendent genius for economic organization. The combination of these forces will, I conceive, be well-nigh irresistible. The logic of this combination spells for us an unexampled development of foreign trade. All we need is intelligently to foster the possibilities. I am not giving rein to imagination. The cold figures of Government statistics show the beginning of this new industrial conquest. Comparisons of manufacturers' cost sheets reveal the possibilities of future successes. Our own homogeneous domestic market, as great as that of half of Europe, contrasts strikingly with the tariff-hampered field of European manufacturers. Our foreign competitors meet at every turn the obstacles of customs restrictions, of racial differences and national jealousies. This great homogeneous market of ours makes a solid foundation upon which our industries can stand while they reach out successfully into competitive fields.

The conquest of foreign markets will not be an easy one, however. We are likely to meet with defeat and failure at some points caused by our failure to give proper attention to the business — and there are many examples of that in the past — or caused by

a combination of obstacles which we cannot overcome. Perhaps we may see an example of the latter situation in the Far East. It is by no means certain that Japan is to stand courteously at the open door of Oriental trade and permit us to enter. We have seen in China what a racial boycott can do in interfering with trade totals. Oriental trade is not something won, but something to be striven for and there will be difficulty, defeat, disappointment, and discouragement. Nor is the trade of Europe to be ours for the asking. The obstacles of tariff walls grow higher with every meeting of Continental Parliaments. The ability to compete with us increases as our methods are better comprehended. Germany has gone so far ahead of us in the proper education of the industrial classes that we may lose at times from that cause alone.

I do not mean that advantage is to come to us through disaster to others. We have perhaps more than our just measure of prosperity, but there seems, at the moment, to be good measure throughout the world. The world has withstood the financial strain of a war which cost the combatant nations two billion dollars. It has withstood that strain so easily that one is led to inquire how it has been possible that such a disaster should have produced no more unfortunate results.

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I believe the answer to that should be looked for in a quarter to which our academic friends have been giving some attention, but which has not as yet come to excite very great interest among practical financiers. It is not alone to the raisers of grain that nature has been bountiful of late. The mines of the world have been yielding treasure as lavishly as have our fields. In every day of this year, 1905, work days and feast days, holidays and Sundays, there will be drawn from the ground a million dollars of new gold. And then when the total is finally cast up there will be a number of odd millions to spare above that average. The mines of the world will produce this year \$375,000,000 of gold. The final figures for the production of gold in 1904 have recently been made and they footed \$347,000,000. We may reasonably look forward in the near future to an annual average output of \$400,000,000 of new gold for at least a considerable number of years. When we remember that in 1885 the production of gold was but \$115,000,000, we begin to get a comprehensive view of the significance of this increase. When we remember further that the entire monetary stock of gold in the world is about \$5,700,000,000 we can calculate that the output from the mines in the next fourteen years

promises to equal a total as great as the present monetary stock of gold. These figures are startling. They perhaps suggest the possibility of a disturbance of values. It does not follow, of course, that with the production of \$400,000,000 of gold per annum the monetary stocks will be increased by that amount. The uses of gold in the domestic arts draw off at least \$75,000,000 a year, but that will leave over \$300,000,000 a year to add to the gold reserves. So eminent an economist as Le Roy Beaulieu has estimated that the monetary stocks of the world will be doubled in twenty-five years. In the light of recent statistics of the output of production I have no doubt that he would modify that estimate and incline to the view that the monetary stocks will be doubled in twenty years.

What is this to mean to the business situation? What is to be its influence upon prices? What effect will it have upon money-rates? These are no longer academic questions. They are practical considerations which need to be taken into account by business men. The great increase in gold production which has been in progress since the close of the Boer War has, in my opinion, been a factor in the rapid recovery from the depression of three years ago. At that time, through financial excesses and indiscretions,

we were led into a dangerous position. In Europe, also, the chilling effect of the great destruction of capital occasioned by that war was everywhere manifest. This new gold production pouring itself into the bank reserves of the world has been an influence in bringing about the quick recovery from depression and in withstanding the shock of the further destruction of capital which the Russo-Japanese War entailed.

The classical economists, Ricardo, Adam Smith, and Mill, evolved the quantity theory of money. They held that the prices of things would vary with the quantity of money in existence. If the money stock were doubled, prices would be doubled; if the money stock were halved, prices would be cut in two. That theory has been proved to be inadequate. There are many other interfering circumstances and modifying conditions. Nevertheless there is economic truth and force in it. It is within the intimate knowledge of all of us that if our bank reserves are increased we are moved to increase our loans. A pressure to increase loans tends to reduce interest rates. Lower interest rates enhance the price of income paying securities. I think every one will accept, subject to important modifying conditions, the statement that an increase in the monetary supply has a tendency to advance

prices. There may be other influences that will counteract in the final result. There can be no doubt, however, that with every million dollars of gold added to the bank reserves of the world, there is a disposition to increase credit lines. That increase in credit lines in turn has its influence on the side of advancing prices. As a practical matter, however, I do not believe we are facing any economic revolution as a result of this influx of gold. We must remember that the growth of business may keep pace or even run ahead of the substantial growth in the gold reserve so that in spite of actual increase the relative percentage of gold reserves to credit demand would leave prices unchanged.

The subject is a fascinating one, but at the outset it must be admitted that it is not one for accurate calculation and definite conclusion. There are a few considerations, however, and some popular misapprehensions in regard to it concerning which it would be well to have clear thinking. For example, it is rather commonly said a great increase in the gold supply will bring us to a permanently lower interest basis. That is a misconception. It is true that the first effect of gold additions to a bank reserve will be to lower the interest rate. That effect, however, is temporary. When the money supply has reached a permanent level, no matter

how great the increase in it has been, the interest rate, other things remaining unchanged, will find its regular level. Interest is but a payment in kind. If the value of money depreciates, the value of interest payment depreciates as well. We need look for no permanently lower interest basis as a result of an increase in the money stock, but while that increase is in progress, the reserves are being constantly augmented and the tendency would be toward lower rates.

There is another consideration which we should have clearly in mind. Disregarding for the moment all other influences, we may lay down the principle that an increase in the supply of money will tend to advance the price of real property, but the price of an obligation repayable in money will not tend to advance. That is to say that real estate and all forms of property, including shares of corporate stock, which represent an ownership in real property, would advance, but bonds, which represent only the right to demand a payment in money, would not advance. All persons having a fixed income would find the purchasing power of that income reduced. The return from mortgages and bonds would have a reduced purchasing power. Persons receiving fixed salaries and wage earners generally would be at a disadvantage, for their incomes would

not tend to increase as rapidly as the purchasing power of their wages decreased. Under such a set of circumstances there would be constant pressure from wage earners to increase their incomes in order to keep pace with the advanced cost of living. Is not that exactly what we have been seeing, and are we not likely to see more of that same pressure to advance wages as the cost of living advances?

These are tendencies which would become sharply manifest if there were not counter-acting influences opposing them. That there are sure to be such counteracting influences goes without saying. I recall a conversation which I once had with the great German financier, von Siemens, the creator of the Deutsche Bank. The balances of trade in our favor had been climbing up from \$400,000,000 to \$500,000,000 and then had gone well beyond \$600,000,000, and it looked as if we might drain Europe of her whole monetary stock if that sort of thing were to go on. I asked Herr von Siemens what was to be the outcome for Europe. He replied with a well-known German phrase, "A tree never quite grows to heaven." Events soon proved that this tree of favorable trade balances could not quite grow to heaven, although for the moment it did look as if it were likely to. And so with this increased pro-

duction of gold which gives promise of doubling the monetary stock of the world in the next score of years. We might expect, if the theories of the classical economists held good, that with a doubling of the gold stock would come a doubling of prices. We can, however, be very certain that the theory will not entirely hold good. There will be counteracting influences. While there will undoubtedly be a tendency to advance prices as a result of this influx of gold into the bank reserves of the world, I do not believe the gold production is likely to become a serious menace. I do not believe that it will so disturb those business relations that are based upon the terms of money as to cause any vital derangement of affairs.

What I do believe is that there is likely to follow just what followed in the two former periods of the world's history when there was an extraordinary production of gold added to the monetary stocks. One of these periods followed the discovery of America, when the treasures of Mexico and Peru were exploited. The other was in the years following the discovery of gold in California and Australia. In each case a mighty impulse was given to the exploitation of virgin fields of development. It seems to me not improbable that the next few years will witness the expansion of the field of commercial

enterprise into new places. Countries that are commercially and industrially backward will yield to this new influence. It seems to me that one of the direct and important effects of this great production of gold will be to give an impulse to the development and industrial exploitation of South America, Africa, Asia, and eastern Europe. At our own hand is South America on one side and China and Japan on the other. We are rapidly awakening to the commercial possibilities within these countries. If we are to have an influx of gold more than ample to sustain the credit operations for our domestic affairs, that fact will tend to lead our interests into these new fields of exploitation. Then, in turn, a wider use of credit which these new fields will develop and the increased reserves which that wider use of credit will make necessary, will probably absorb the increasing gold stock in beneficent uses, preventing it from ever becoming a serious menace to business organization.

The outlook is surely bright. What can hurt us? What dangers are ahead? With bountiful harvests, with lavish mineral production, with increasing financial strength, with wonderfully improved industrial organization, with a sound banking position, and with an impulse already given to every form of commercial activity, what is there to fear

in the future? Is it clear sailing? Can we make commitments without fear for the future? Is the whole outlook into a cloudless financial horizon? An optimist might be forgiven for thinking that it ought to be. We have a good many elements of a firm foundation under our feet but again we might quote the German phrase, "A tree never quite grows to heaven." Sure as we are of many of the substantial foundation stones upon which to rear a structure of prosperity, we may be quite as sure that there are dangers lurking in the situation. Some may be avoided, others will not. Some it is possible to foresee, others we will fail to recognize until we see their evil effects. Among those which we know exist, there comes first to mind our illogical and unscientific currency system. We know that this system may at any time breed us trouble. We know that there is not a European financier of broad intelligence who, looking dispassionately from without at this currency system of ours, does not feel that it has in it dynamic possibilities for trouble even if other conditions are favorable. Indeed it is when all other conditions are most favorable that the danger is the greatest. Now, in the very fullness of the prosperity that we have, there might be a pitfall for us in that quarter. A strain is on our currency system. With our

usual good luck we may avoid disaster, but it is the sort of time, nevertheless, when we ought clearly to see that we have a system which might endanger our banking position and retard most seriously our commercial development. We know that we are threatened by great social disorders; that the edict of a labor leader might change a cloudless outlook into an uncertain one. We know there is a disregard of law in labor unions and in corporation offices alike, which is threatening to our welfare. We can, at the moment, clearly see that however prosperous conditions may appear, this prosperity might receive a severe check should a speculative fever begin to rage. Should a stock market speculation start from the present high level of prices in the face of the extraordinary demand for capital and money which crops and business alike are making, the result might easily be temporary disaster.

I have been emphasizing some of the bright aspects of the picture, but there are shadows. In a gathering like this, Jeremiad songs are not pleasant, but there are some that might be sung which would not be out of harmony with true conditions. Never was there a better time to preach conservatism; never perhaps was it easier to be carried away by some of the obvious features of prosperity and to forget some of the dangers

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which in the end will be quite as potent in shaping the ultimate result. "A tree never quite grows to heaven." Although there may be many favorable features to the outlook, it is no time for prudence to be cast to the wind; no time for speculative commitments which would yield disaster if temporary reverses came; no time for laxness in any of the forms of business prudence and conservatism.

OLD-AGE PENSIONS FOR WORKINGMEN

An address delivered before the Commercial Club of
Chicago, October 28, 1906.

COFFEE and statistics were never intended to be mixed. The subject of old-age pensions for workingmen does not lend itself to the sort of after-dinner talk which men like to hear. I am sufficiently impressed with the importance of a study of the problems which the question presents, to believe that there are few topics which might better engage the attention of such a group of men as compose the Commercial Club, but I admit that the subject is not one that blends well with the smoke of an after-dinner cigar.

No men know better than you the changes which have been going on in industrial life in the last generation. There have been tendencies toward specialization and concentration. There has been a remarkable application of mechanical aids. We have been working toward production on a vast scale. This has created an industrial army, the rank and file of which tend more and more toward becoming automatic wheels in the

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great industrial organization. The new industrial order has made a new social order. There is to-day no such thing as industrial independence possible for a working man. He must work with others. He must become subject to regulations in common with his fellows. He must, in exchange for the comforts of life which have come to him, give up in large measure his industrial independence and work in harmony with these new industrial conditions.

So long as the individual can actively fill his place in this new order of affairs his condition shows great improvement in many respects. The moment he gets out of harmony with the whirl of the industrial machine, however, the moment that sickness overtakes him and accident injures him or old age reduces his power to keep in step with the industrial march, his condition is likely to become incomparably more unfortunate than would have been the case under similar circumstances in earlier times.

Such business men as you recognize clearly enough a changed order of affairs in industrial and commercial life. You know that you must shape your business methods so as to harmonize with the new order of things. You know that you must co-operate in many ways with your fellows; must share with them their risks; must help to sustain

them in their misfortunes. You know that you have lost in the new order of things a certain amount of independence. It ought not to be difficult then to see that your employees are also in the midst of a changed condition and that principles which apply to the relations between employers and employees, and to the relations between the State and the citizen have been undergoing change. I believe that the reason why you are interested in the subject of workingmen's pensions is to be found in the fundamental change which has been going on in industrial affairs. I believe your interest logically follows the evolution of economic laws, and if we are to seek for a secure foundation upon which to rest judgment in regard to this question of workingmen's pensions, we will find it in an analysis of economic conditions rather than in sentimental consideration or charitable ebullition.

Nations older than we are came earlier to a consideration of this subject. The place where the greatest progress has been made in an experiment in workingmen's pensions is in Germany. It is safe to say that the German system of workingmen's insurance is the most important experiment in progress in the world in the way of a government-aided sociological institution. The importance of it is hardly understood in America

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nor is its extent realized. It pervades every phase of the industrial field. Twenty millions of Germany's fifty-two millions of population are eligible to these benefits, and the cost of administration falls alike on these beneficiaries and upon all other citizens of the empire. The total receipts will, from its organization up to the end of this year, have aggregated almost \$2,000,000,000. The receipts this year will approximate \$150,000,000. A satisfactory feature of the German state insurance system is that the benefits paid out correspond very closely with the premiums paid in. The expense of administration, considering the enormous number of individuals concerned, and the fact that weekly contributions are collected from employees, is surprisingly small. It averages under 9 per cent.

The German system of workingmen's insurance is not to be regarded as merely an old-age pension scheme. As a matter of fact the old-age pension feature is the least important part of it and the least satisfactory. There are three great divisions of workingmen's insurance in Germany. These are insurance against sickness, against accident, and against want in old age. The fund for insurance against sickness is provided in the main by the employees. The employers contribute roughly one-third and the workmen

two-thirds. The Government gives no subsidy for either the sick insurance or the accident insurance. Employers are charged with the entire burden of maintaining the accident insurance fund, while the fund for old age insurance is contributed to equally by employers and employees, and is augmented by a subsidy from the Government which is nearly equal to the total cost of administering the whole system.

It is quite impossible to enter into a detailed explanation of the German system of workingmen's insurance. I know of no other problem of administration where the details are so complicated. Not only are there three distinct systems of insurance; but there are complications of Government participation in the funds and of a division of the authority of administration between Government officials and some twenty-five thousand local organizations. Whatever view one might hold in regard to the benefits of the system, there could be no difference of opinion in regard to this method of administration. It is certainly too complicated to transplant to any other country. Many of these features of administration would, in any American consideration of the subject, be regarded as errors to be avoided rather than as examples to be followed. It is charged that the complicated administration

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had birth in the fertile brain of Bismarck, whose statesmanship was equal to killing two birds with one stone. In the pension system itself he placated the workmen who had run after the false gods of Socialism, and in the methods of administration he provided a police espionage more complete than any ever conceived in the secret service of Russia. Be that as it may, the system has long since outgrown whatever may have been in the Iron Chancellor's mind at its organization, but has not freed itself from the incubus of the enormously detailed administration with divided authority and complicated incidence.

The principles underlying the theory of German workingmen's insurance might be briefly summarized in this way. The German nation was, in a few years, transformed from an agricultural country into an industrial state. An evolution at the same time was in progress in the field of industry which resulted in the highest specialization of work and the greatest development of the factory system. These all combined to make a practically new social order of things, and made necessary an enunciation of new principles in regard to the duty of the community toward the individual. These principles are novel in political life, but fundamental in character. The Germans argue that no mat-

ter how free they may be politically they cannot possibly be economically independent because of the intricate and complicated modern system of industry. The individual in spite of himself becomes a part of the industrial order and is so placed that it is difficult, if not impossible, for him to extricate himself from his misfortune should he be overtaken by accident or sickness, or should he reach a dependent old age. In the new industrial order the liability to accident is greatly increased, and that in itself demands new means for meeting such a condition.

In Germany, as indeed throughout Europe, the question of the liability of employers in the case of accidents to workmen is one which for a number of years has received much attention from the law-makers. It is certain that with the introduction of high power and complicated machinery, there has been a great increase in the number of accidents which are beyond the control of the workmen themselves. A strict interpretation of the common law has for the most part absolved employers from the greater part of their obligations under such circumstances. The development of the workingmen's insurance idea in Europe has been in large measure the logical result of efforts to reform the law relating to the liability of employers

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for accidents to their employees. Under the old law the employer was responsible only for those accidents resulting directly from his fault or the fault of his agents. The application of that law meant that the employer bore the consequence only when the accident was due to his fault, and then only after the injured employee succeeded in legally establishing the proof of that fault. Europe has seen more plainly than we have in this country the injustice of such a condition.

When such legal principles were evolved establishments were small, the employer was in intimate relation with the employee and it was comparatively easy to determine the responsibility. With the growth of large-scale production and the introduction of complicated and dangerous machinery, the whole system became so complex that it was extremely difficult to trace responsibility. The result was that as a rule the full weight of suffering from an accident fell upon the injured employee. Here in America we have gone even further. We have perfected organizations for insuring not the employee against accident but the employer against liability. These organizations are not to indemnify the injured, but rather to indemnify the employer for the costs of fighting in the courts the claims of the injured. I am not

saying that employers have been without reason for wishing such indemnification. I know there are lawyers who might better be in jail than in court. I know there are juries which have determined verdicts on whether or not the defendant was a corporation rather than upon any facts that were presented in regard to the case under consideration, but in spite of all this I do not believe that even these evils warrant the way in which we throw the burden of accidents upon the injured. Elsewhere the world has grown beyond the old system of common-law liability. I do not believe that the organization of shrewdly managed and powerful corporations whose business it is to contest in the courts the claims of injured people is in harmony either with the present-day condition of industry or with the present-day conception of humanity.

I was saying that one of the most important features of the German insurance scheme is the provision of an indemnity to persons injured in industrial occupations. The work has been in the direction of justice and of humanitarianism, but like most acts that are in conformity with justice, the advantages have been greater than were at first apparent.

Accident insurance as developed in Germany has been something more than merely

the providing of an indemnity. It has been, in fact, an insurance against accidents. This definite placing of the responsibility for accidents has led to much study by employers and employees of regulations providing for safeguards. Such study has accomplished remarkable results in the reduction of the number of accidents, and has become a great economic factor in removing the danger from industrial callings. Under the influence of this study the frequency of accidents has been reduced one-half. Viewed from an economic standpoint alone the saving which has resulted in the national economy has been a vast sum. We are strikingly careless of life in America. The statistics of industrial injuries and fatalities are a disgrace. In the rush of our industrial expansion we have neglected to provide many of the obviously necessary safeguards. From whatever aspect we may regard the subject, we will, on any broad view of it, find that the adoption of some of the European regulations and safeguards will be of great national advantage.

The second division of the German insurance system and the one which to my mind has by all odds most fully demonstrated its value, is the sick insurance fund. The advantage to the workmen of a sick insurance fund is clear enough. I will pass

over without any comment the strikingly advantageous features of this sick insurance system, for there are some others which seem to me of the highest economic importance, and which are well worth emphasizing. I believe that this sick insurance system in Germany is having a profound effect on the whole physical welfare of the nation. I believe that the general level of vitality, and hence of working capacity, is being distinctly raised as a result of it. It must be remembered that the activities in the sick insurance field are not confined to the mere payment of the indemnity during a period of illness. The sick insurance not only makes it possible for a workman who is ill to take at once the necessary time for recovery, but it provides him with the best medical attention after he is ill, and while in health it gives hygienic supervision and instruction which is of the greatest value in preventing sickness. Under the operation of this system there is being spent in the most intelligent manner, something like \$50,000,000 a year in the treatment and care of the sick.

The testimony in regard to the value of the work done in the sick insurance system is almost universally favorable. It would be hard to calculate its economic importance, but I believe it is so great that it has become one of the leading factors in helping that

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country to the industrial pre-eminence which it is gaining.

There is undoubtedly here and there ground for criticism. Lazy patients occasionally sham illness. There are workmen who would rather lie in bed with a small income than work for a larger one. But the principal effect of this sick insurance is, I believe, of economic value in the industrial development of the German Empire out of all proportion to the burden which is laid upon employers.

The first two divisions of the German insurance scheme providing for indemnities against accident and sickness will, I believe, commend themselves to every investigator of the subject.

There is now left to consider the third division, the German old-age pension system, which is, as I have said, the least important and the most criticised feature of the German workingmen's insurance institution. The contributions which it calls for are very small, and the final pension provision is generally regarded by the workmen as entirely inadequate. Although the employers contribute an amount equal to that contributed by the workmen, and the Government finally adds a considerable subsidy, there still is less general satisfaction among the workmen with this division of the insurance scheme

than with the others. The reason for that lies in a measure in the perversities of human nature. The contributions, small as they are, are collected every week, and are a constant reminder to youth of a sacrifice being made for problematical benefits a long way in the future. The benefits of the accident and sick insurance are more directly at hand. The workmen themselves are most intimately related to the administration of the first two funds.

There is a pretty general demand for an increase of the old-age pension. When it is remembered that the contributions from the men range from six to fifteen cents a week, and that these payments return a pension after seventy years of age of \$27.50 to \$60, it is easily recognized that there is ground for complaint as to the smallness of the amount. There is a general demand among the workmen to have a reduction in the age limit. Sixty-five years is considered a desirable time for the pension to begin rather than seventy years.

One incidental feature of the administration of the German system which is proving of very great value is to be found in the way in which the sick and accident funds are administered by committees made up of employers and workingmen. Employers and workingmen come together on common

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ground. They are working toward common ends. With the responsibility of administration on their shoulders radical socialists become conservative. With the broader point of view which close association with employees brings, the employers are benefited. The fact that in the twenty-five thousand administrative organizations, workmen and employers have been brought together to give harmonious consideration to the means for accomplishing a common end, is proving of immense importance in maintaining pleasant relations between capital and labor.

As the German system of workingmen's insurance is by all odds the most important experiment of this sort in the world, I have been to some pains to ascertain at first hand just what German manufacturers and men of affairs think about it. I have felt that it would be interesting to you representative men of affairs, to know what is thought in Germany of this institution by men of our own type. With that in view I addressed a series of questions to a considerable number of the most prominent manufacturers and other representative men in Germany. I regret that I have not received the same courtesy in the way of replies that I believe would have been accorded by you had an inquiry come in the other direction across the Atlantic, but I have, nevertheless, re-

ceived a number of replies from some of the most important people in Germany. In the main the views held are distinctly favorable to the institution, although in the details of its administration there is found ground for criticism. The idea seems to be general that the system works for patriotic loyalty to the Government on the part of the working people. The earlier idea of the State in the workmen's mind was largely based on the policeman, the sheriff, and the tax gatherer. The State always took something. Now it is said if we watch a post-office money-order department on the first of the month, we see the people drawing their insurance money, and for the first time the workman views the State as a giver. More than a million marks a day are paid out to them in this way, and the result in the way of developing patriotic regard for the Government is excellent.

The characteristics of the German laboring system have been described as low wages, pensions, and contentment. The first is certainly correct. In many fields of labor in Germany the pay is less than one-half the amount corresponding workmen would receive for similar work in this country, and, not infrequently, it is not over one-third. On the whole the German workingmen, so far as I have been able to observe, appear to be more contented than American working-

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men. Whether this contentment is due to the pension system or not is, of course, an open question. The contentment of the German working classes might be described as physical rather than mental. The German is nothing if not critical. The whole German nation is given to analysis and criticism of its own institutions, and if one wanted to collect evidence of discontent among the German working classes, and went to the printed page to do it, there would be no end to the mass of testimony.

None of my correspondents claimed that the effect has been to make the workman contented. The Empire is new. Germany's industrial prominence is new. One cannot separate the effect of this insurance and say that certain good results are due to it alone. That the workman is not content must be admitted, nor is the man who makes a million contented. The workman has had this new set of rights and privileges given to him, and his eyes are opened to the possibilities of more rights and greater privileges. A perspective of new things is opened to him. His discontent, however, is due not to faults of the pension system, my correspondents tell me, but rather to a desire for an extension of its benefits.

The general effect of the system is thought to have a good influence in preventing a

tendency toward Socialism. Most of the workmen who are members of the administrative committees are Social Democrats. My correspondents tell me that it is simply wonderful to see how the most radical political shouters quiet down when they find themselves on a committee discussing grave matters and charged with the responsibility of important decisions.

I asked my German friends their opinion as to whether or not it would be advantageous for America to adopt a workingmen's pension scheme. Their replies to that question were illuminating. This is what the manager of one of the greatest industries said: "I think the general opinion in Germany is that in America the creation of large funds under Government control would cause great temptation for their misappropriation. Their collection and distribution would be too dependent upon politics. This opinion seems largely justified in view of the instances of maladministration that so many of your Government Departments have recently furnished. The German opinion is that the American citizen is as yet too individual in his honesty and efficiency. Collectively, as exhibited in the government of your municipalities and of the State, you seem to us weak in economical and ineffective in business management and financial

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integrity." That is not a pleasant criticism to receive, but there is more justice in it than we all might wish.

Another correspondent, most eminent in both industrial and public life in Germany, says: "The German nation believes that it can conscientiously recommend the introduction of the system of workingmen's insurance into other countries, but so far as the United States is concerned, such a system does not seem as great a necessity as in other countries. Wages are higher in America and the workmen better capable of providing for the future." He then makes an interesting suggestion. He says: "There is no doubt that the introduction of compulsory insurance would produce a social line of demarkation between those who are obliged to submit to the law and those who are exempt, and we doubt if the people of America would look upon such a social classification with favor. It cannot be denied that with the German system there is a certain amount of tutelage which the American workman in consequence of his independence would bitterly resent. Should the system ever be introduced, I do not believe it would be wise to entrust it to the various States. It will be more beneficial if brought under the control of the Federal Government."

In every Continental country the political

questions which occupy the foremost position in parliamentary consideration are measures designed to improve the condition of the laboring population. We are apt to think of ourselves as a republic more swayed by the democratic voice of the people than are other nations. It strikes an American as curious to find that, in monarchical Europe, governments everywhere are paying the closest heed to the public will. This, of course, is true in small measure in Russia, but in France, Germany, Belgium, Italy, and Holland particularly, and in Austria-Hungary and Spain to a less degree, the foremost legislative movements are concerned with questions of improving the condition of the laboring people.

The way in which parliaments bow to popular will was strikingly illustrated in the French Assembly some three years ago, when by a vote of 537 to 3 the law concerning aid for old people was passed. The French Government has for years taken a benevolent attitude toward this subject, and in particular has made it easy for persons in humble circumstances to secure annuities from the Government either by a single small payment during the early years of life, or by a series of payments.

The principle of giving aid to old people was adopted in a moderate way ten years

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ago, but it was not made compulsory upon the various Departments. The present law broadly proclaims the obligation of the State to aid people whose years have passed the line of usefulness. In all the debates in the Assembly, that principle — the obligation of the State to give aid — was not opposed, and the admission of the principle is, of course, the most important fact about the whole affair. The present law considers the obligation as one to be largely borne by the commune or township, and the major part of the payments are made from commune funds, although the funds of the general Government are used to supplement the local grants. It is anticipated that somewhere from 300,000 to 500,000 people will receive regular monthly payments when this law is in full operation.

Even the Russian Government has made provision for insurance by the State. There the business is entrusted to the governmental savings banks. The Government proposes to make the taking out of insurance obligatory so far as employees on the Government railways are concerned, and it arranges for the payment of the premiums by deductions from the monthly salaries.

With the exception of the United States, all the great powers of the civilized world pension their civil servants.

The question of civil pensions in the United States is, I presume, not one that interests you particularly, but I believe it is one in which you ought to be interested. The full working out of the merit system in civil service can never be accomplished, I believe, until we recognize the principle of a civil pension for superannuated Government employees. There is no other important nation which has not recognized that principle. I doubt if there are any men who have ever been charged with the responsibility of an appointive office in the Government service, who have not come to recognize that need, and who have not been won over to the belief that it would be economy in Government administration if a proper system of civil pensions were devised.

Look now from the foreign field to what has actually been accomplished in the way of old-age pensions in this country. There will be found much that is interesting. A careful canvass has been made of railroads and large business corporations in America to ascertain the number of such corporations which have been led to adopt some sort of old-age pensions. In an inquiry reaching nearly two thousand corporations replies show that seventy have adopted some plan for retiring and providing for employees during old age. Without a single exception

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these corporations which have adopted such a plan expressed the opinion, after having had an opportunity to note its effects, that it is a wise business practice. Among the corporations having a pension system are some of the most important in the United States. Some four hundred others replied that they had the matter under serious consideration and that they were convinced that the principle was sound from a business viewpoint.

More than thirty years ago, the Grand Trunk Railway of Canada adopted a pension system which has been growing in importance, and has continually given good reason for commendation from both the officials and the employees. Fifteen years ago the Baltimore & Ohio followed suit. In 1900 the Pennsylvania Railroad and the First National Bank of Chicago formulated pension systems, and the following year the Pennsylvania lines west of Pittsburgh and the Illinois Central adopted pension plans. In 1902 the Andrew Carnegie Relief Fund, with its \$4,000,000 benefaction was organized, and half a dozen important railroads, including the Southern Pacific and Canadian Pacific, and the Chicago and Northwestern, became convinced that the method was wise.

The most notable step which has been made in this country was accomplished this

year by the great Carnegie benefaction of \$10,000,000 for providing pensions for college professors. This act of America's great philanthropist has received more approval than any other of his vast benefactions, and it promises a marked and beneficial effect on our whole system of higher education.

As a rule those American corporations which have adopted the old-age pensions system have treated the matter in the light of deferred wages, the corporations bearing the entire expense of the pension requirements. The method of the Pennsylvania Railroad is typical of this form.

In a word, the Pennsylvania Railroad retires upon a pension, all officers and employees compulsorily at the age of seventy, and may retire them between the ages of sixty-five and seventy, provided they have been thirty years in the service.

The amount of the pension varies with the years of service, and with the average monthly pay for ten years preceding retirement. The average monthly pay for ten years preceding retirement is the basis, and the pension is 1 per cent of that amount for each year of service. The Company reserves the right to alter this basis whenever the allowance made under it shall demand an annual expenditure in excess of \$390,000.

When the Pennsylvania officials were ex-

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amining the subject, they found that nearly every important railroad system in the world, outside of America, had provided in some form for the retirement of old employees. The basis of the plans adopted by all the foreign corporations and governments contemplated contributions on the part of the employees. That was not in accordance with the ideas of the Pennsylvania officials. In that case the Company wished to assume all the expense involved, and in that respect the practice of the Pennsylvania Company and of most other American corporations is at variance with the accepted practice elsewhere in the world. Another method, of which a typical example is that of the First National Bank of Chicago, provides for contributions to the pension fund by both employer and employee.

In respect to the age of retirement there is a fair amount of unanimity in all plans. The majority of the schemes fix the age at sixty-five. A number of them, the Pennsylvania Railroad being an example, give some play to the judgment of employing officers so far as the retention of employees between the ages of sixty-five and seventy is concerned. The Carnegie Company retires men at the age of sixty, and the Grand Trunk Railway of Canada at the age of fifty-five.

As a general rule, in the plans thus far adopted in this country, specified length of service is required as a condition precedent to obtaining a pension. The Canadian Pacific, Illinois Central, and Baltimore & Ohio Railroads have fixed that term of service at ten years. The Carnegie Company and the First National Bank of Chicago fixed it at fifteen. The Southern Pacific and its allied lines make it twenty years, while the Pennsylvania Railroad and a number of Eastern roads made it necessary for an employee to have been thirty years in their service. On the other hand, the Philadelphia & Reading has adopted a very broad plan. On that railroad any faithful employee, irrespective either of age or of length of service, who receives injuries in the performance of duty, or becomes incapacitated through sickness, may be awarded such a pension as the president determines.

Practically, without exception, those American railroads which have adopted the pension system provide the entire fund out of which pension allowances are paid. The Grand Trunk Railway requires a contribution of $2\frac{1}{2}$ per cent of the monthly wages. The First National Bank of Chicago requires a contribution of 3 per cent. While the employee contributes to the fund, provision is always made for the return of his pay-

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ments in case he severs his connection with the service.

If I were to attempt to summarize the reasons why institutions in the United States are beginning to adopt old-age pension schemes, I would say that they embrace such considerations as these:

The pension attaches the employee to the service and thus decreases the liability to strike. It makes more certain a continuance of efficient men in the lines of work with which they are perfectly familiar. Of quite as much importance is the fact that a pension system enables employers to dispense with the elderly and inefficient, and thus gives constant encouragement to good effort on the part of younger men hoping for promotion. When employees realize that unsatisfactory conduct may at any time lose them not only their present positions, — a loss which in such a labor market as ours might be easily made good, — but that it entails further the loss of a very valuable asset, the employee's right to a pension, the incentive to good conduct is greatly increased. It operates especially as an incentive to hold men between the ages of forty and fifty when they have acquired the experience and skill which makes them especially valuable, and prevents their being tempted away by slightly increased wages for a temporary period.

Those business institutions which have adopted the old-age pension scheme have not done so from sentimental considerations, but rather from considerations of economy and efficiency of administration. They have found that when provision is made for those who are too old to render efficient service, every employee in the service who recognizes that at some time he may become eligible to such benefits will be under strong inducements for good behavior. In financial institutions particularly, if men are removed from anxiety for the future, they are much more apt to devote their best efforts exclusively to their careers and to be in less danger of diverting their energies into side channels of money-making — channels which may easily lead them on to dangerous ground.

No one can doubt that there is weight in these reasons. On the other hand, they certainly do not in themselves offer sufficient ground for us to jump to the conclusion that we are ready for a compulsory system of old-age pensions which should be under the Government's supervision. With such study as I have been able to give to the subject, I should, at the present time, summarize my conclusions as not going further than to say that it is eminently a subject for careful painstaking study. I do not believe the German system could be transplanted here

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in anything like its entirety. I am, however, perfectly confident that those features of the German system pertaining to sick and accident insurance are of enormous value to the national economy, and are producing results out of all proportion to their cost.

That there is to be development of the industrial pension idea is as inevitable as the working of the laws of economic progress, and whether that development should be directed by the Government, or whether it can best find expression through the individual action of corporations, I am not prepared to offer an opinion. The thing that I do thoroughly believe, however, and the one conclusion which I have formed, and the one which seems to me you ought not to find difficulty in agreeing with, is that the subject is worthy of thorough scientific study. I believe the Commercial Club would be rendering a service of great value to the country if it would either undertake on its own behalf, or, perhaps preferably, would use its great influence to get the President or Congress to undertake, a thorough investigation of the whole problem. There is a scarcity of literature in English on the subject, and what has been printed is now mainly in the form of scattered articles and buried reports.

A commission which would give the subject a thorough investigation and would put

the results of that investigation into such shape that we could grasp the significance of what has been done would be of great value. I believe it is worth the while of such men as you to give impetus to such a movement, to throw your influence on the side of a complete inquiry into all the phases of this subject. If to do this accords with your judgment, I am confident that an inquiry so instituted will be followed by results that will be of very great economic importance to the nation.

2

AMERICA'S FOREIGN COMMERCE

An address delivered before the Chamber of Commerce
of Wilmington, North Carolina, September, 1902.

WE are all aware that we are in a unique period of commercial, financial, and industrial development. It is undoubtedly the most important, the most remarkable and the most interesting period of industrial and financial evolution in the history of the nation. We have witnessed, in the last half dozen years, a commercial expansion and a financial movement alike unparalleled in the achievements of our own country or in the growth of other lands.

These half dozen years have been productive of statistical totals bewildering in their magnitude, — of industrial expansion unparalleled either in volume or in significance; of widening financial influence; of broadening credit operations; of banking development, — all marking growth so great that it is becoming difficult for us to view with a correct and rational perspective the phenomena marked by these new totals.

Familiar as you all are with the salient features of this development, I wish for a moment to emphasize a few of the more

noteworthy facts. I do not want to weary you with any statistical catalogue, but only to indicate in the most general way some of the features of this remarkable period.

In the domestic field we have had both a series of extraordinary crop years and a period of extraordinary industrial activity. On the agricultural side, we have seen the annual value of farm products increase far over a billion dollars in the last half dozen years, and we have seen the value of the farms themselves advance more than four billion dollars in the same time. In the industrial field, we have had a period of the fullest employment of labor (except where labor has chosen to refrain from work), and of the highest general level of wages which has ever been known, either with us or with any other people. The definite evidence of this prosperity we have seen in a doubling of the individual deposits in national banks, the total going up from roundly a billion six hundred millions in 1896 to three billion two hundred millions this year. In the same time the deposits of savings banks have increased seven hundred millions, the deposits in State banks a thousand millions — considerably more than doubling the total of six years ago — and the deposits in trust companies also more than doubling, the increase there being six hundred million. In these

half dozen years the credits represented by individual deposits in banks of all classes have increased roundly four billion dollars, an increase nearly equal to the total deposits of all kinds half a dozen years ago.

Bank clearings — an excellent measure of general trade — increased in these half dozen years 150 per cent, and it is estimated that the total wealth of the country has had more than twenty billion dollars added to it in that period.

We have increased our coal production one hundred million tons, and passed easily to the position of the greatest of coal-producing nations. We have almost trebled our production of steel, leaving our competitors far behind in any comparison of volume of business. We have added four hundred million dollars to the annual product of our mining industries.

So the catalogue might be indefinitely extended, with ever-increasing totals and more and more confusing aggregates of almost incomprehensible numbers. In a word, whichever way we turn we find that the figures measuring the volume of business, the extent of industry, the growth of financial importance, have in these last half dozen years made an apparent gain equal to the entire total six years ago. It is hardly too much to say that in six years we have

doubled the figures measuring the apparent extent of our annual domestic business.

Now, for a moment, to turn from the domestic side of the account to the foreign situation. Here we have recorded gains which have given deep concern to the whole commercial world. We passed the billion-dollar mark with our exports in 1896, and in five years more the total stood just under a billion and a half. At the same time our imports were declining, so that we were not only making wonderful inroads upon foreign markets, but we were more than holding our own in our own markets in competition with foreign manufacturers. Our foreign trade balances began to show incredible totals in our favor, running up well over six hundred millions a year, and causing the gravest apprehension in the minds of our commercial rivals in regard to the industrial readjustment which the world must look forward to if such totals were to be maintained. In a single year we imported one hundred and five millions of gold. The world suddenly discovered that we were not alone its granary, but we were likely to become its workshop. We pushed into the foreign markets with the handiwork of our mechanics and the products of our machines, month by month increasing our sales, until from a total of less than two hundred mil-

lions of exports of manufactures we had soon far exceeded four hundred millions, making increases so rapid that Europe was brought face to face with the problem of reorganization of her industries to meet this new-born competition, and a readjustment of her finances to pay for her increased purchases, which she seemed unable to offset by increased sales.

I had the privilege a year ago of meeting many of the foremost statesmen and financiers of Europe, and of discussing with them the commercial questions which had been raised by our rapid industrial development, and by our wholesale invasion of their markets. Everywhere I found the problem receiving most serious attention. Everywhere it was regarded as the most vital of economic questions, and nowhere did I find anything but wonder over the development which we were showing and apprehension in regard to the effect of its continuance. Where it was to lead in its effect upon European industries and European finances, if it were to continue, was the unsolvable problem of finance ministers, bankers, and industrial captains. I had the privilege of a conversation at that time with Germany's most distinguished financier and industrial up-builder, the late Georg von Siemens — the creator of the Deutsche Bank, the adviser

of the Government, the originator of vast industrial enterprises. I asked him what was the future of the old world in respect to this new industrial development and this sudden show of financial strength in America. I asked him what was to be the result, if we were to go on selling to Europe six hundred millions of goods a year more than we bought, increasing our exports, decreasing our imports, building up a theoretical trade balance of such totals as were new in international finance.

Herr von Siemens was a wise and an experienced man. He had passed through crises and through periods of inflation, and he viewed the outlook with calmness.

"I am not concerned about what will happen to Europe if you are to go on in this triumphal way," he told me, "because you will not go on. There will be something which will stop you. Something always does happen in such a situation as this, and something will happen now. I do not know what it is; my vision is not broad enough or clear enough to foresee it, but you will make mistakes and a halt will be called."

It is my purpose to-night to examine somewhat critically the present industrial and financial conditions, with a view to seeing if this shrewd German observer was right, with a view to determining if some-

thing has happened to call a halt in our progress toward a command of the world's markets, and then to offer you, if I can, some suggestions as to why it is that we have failed to keep up the pace, and as to what can be done to remove the obstacles that are retarding our progress.

I am just back from another European trip, and have again met many of the most distinguished of European statesmen and financiers. The change that the year has made in their point of view is extremely interesting. They are no longer fascinated by our progress. Instead of that, I found in every capital I visited, and in the mind of almost every keen observer of international affairs with whom I conversed, a belief that we have for the present marked the high-water point of our overflow of exports into the European industrial field. And instead of credulous belief in the unlimited possibilities of our development, which seemed to be the average state of mind a year ago, there is to-day a feeling of grave conservatism and anxious interest in our future.

They note that the rapid increase of our exports came to a halt two years ago. They note that our imports in the last two years have been rapidly rising, the record for the fiscal year just closed being more than nine hundred million dollars, against only a little

over six hundred millions in 1898. They note too, that in spite of that tremendous balance of trade which Government reports showed in our favor, a balance running, as I have said, up to an average of almost six hundred millions a year, we do not seem to have any unusual command upon international credits, but we are as a matter of fact a considerable debtor in the world's exchanges, and that now, in the midst of extraordinarily bountiful harvests, and at the season when a movement of gold in this direction might normally be expected — we are concerned lest a high rate for sterling shall lead to gold exports.

If we are honest with ourselves, we must admit that the edge is off our invasion of foreign markets. Our totals are still colossal, but the rate of increase which they were making has been checked, and decreases have been recorded. Our exports of manufactures for the fiscal year just closed are thirty million dollars less than the point they reached two years ago. Our total exports of domestic merchandise fell off more than a hundred million dollars in the year. Instead of decreasing imports we have made some large increases in our purchases of foreign goods, and the total for this fiscal year stands more than three hundred million dollars above 1899.

America's Foreign Commerce

If we chose to examine critically our domestic condition we might find there, too, developments not in every respect satisfactory. It must be with the keenest regret that we recognize unfavorable conditions that threaten a break in the unparalleled magnificence of this story of industrial growth. Nothing will better repay thought and study than inquiry into those causes, which seem to imperil a continuance of this wonderful period of prosperity. Nor can any investigation be of more vital importance than a consideration of what safeguards it is possible for us to provide against the recurrence of these cycles of depression which seem always to follow periods of prosperity.

It is not my purpose, however, to dwell upon some of the evidences of inflation, upon a too free issue of securities larger than the value of properties warrant, and more rapid in creation than investors can absorb, nor upon labor conditions fraught with serious menace, which already mark their effect upon industrial totals. Instead of a broad survey of the whole situation, I wish to take up a single phase of it, a phase which has been well illustrated by a recent episode in financial affairs.

In cataloguing the splendid list of industrial and commercial achievements, I have

been telling a story that is old to your ears. The totals are so wonderful as to remain fresh with interest, but they present a view of the situation which has now for several years been pretty well fixed in the minds of all of us. Statistics are wearisome. In an after-dinner talk they are almost unpardonable. But I am going to ask you to give attention to a few more figures, and I regret that they are figures that cannot be looked upon with the degree of satisfaction with which, in the last three or four years, we have been wont to regard all of our commercial statistics.

The Comptroller of the Currency, a few days ago, completed his report showing the condition of all national banks last month. That report, it seems to me, is one of the most significant that has in a long time come from the Comptroller's office, and it will well bear some analysis and comparison. If we are merely looking for large totals, we may again find them here, figures in some respects surpassing all previous records. The total deposits, individual, bank, and Government, in all national banks, foot up four billion five hundred and twenty-seven million dollars. Now, if we turn back to a similar report for the beginning of 1899, we will find the total of the same items three billion two hundred and twenty-six

millions. Now, for a moment, bear these figures in mind. Roughly, four billion and a half deposits now, against three billion two hundred million in 1899 — and with that increase in the liabilities of national banks in mind, let us look at the figures representing the reserve basis. The total of specie and legal tenders held by the national banks last month was five hundred and eight millions. The total at the beginning of 1899 was five hundred and nine millions. Here we have had an expansion of a billion three hundred millions in deposits, while the basis of gold and legal tenders, upon which that inverted pyramid stands, is actually slightly smaller than it was at the beginning of the period. Now, in that same time the deposits of other banks — State banks, trust companies, savings banks, and private banks — have probably increased not far from three billion dollars, and there is little likelihood that their gold and legal tender reserve is materially larger than — if it is as large as — at the beginning of 1899. We have had then in less than four years an increase in the total bank deposits of the country of over four billion dollars, accompanied by no increase in the specie and legal tender holdings of those banks.

What has brought about this remarkable development of bank credit? The answer

must at once come to the mind of any observer of finance, that the principal reason for the expansion of deposits and the accompanying expansion of loans is to be found in the great movement which has been the significant feature in financial affairs of the last half dozen years — the movement to aggregate industrial establishments into single great corporate units, and to convert the evidence of ownership into corporate securities which have entered actively into the stream of financial operations. Vast amounts of new securities have been created in these half dozen years, based in large measure upon properties which were before held as fixed investments by individuals, or if standing in the form of corporate property, the securities of those corporations were more closely held, and in but small measure entered into the financial operations of the day. This movement — tending to convert the evidence of ownership of a great amount of fixed property into a form which has been considered a bank collateral, and which has been made the basis of loans and of corresponding increases of deposits, is undoubtedly the most important single cause for this increase of more than four billion dollars in bank deposits and bank loans of the country in the space of three or four years.

Another important contributing influence has been the vast expenditures of corporations — railroad companies particularly — for the improvement, betterment, and extension of their properties. New securities have been created, and the capital which was obtained by their sale has been converted into a fixed form of investment. When our railroads were first built economy in construction was the prime consideration. Now it has come to be that economy in operation is demanded. At first it was economy in the use of capital; now it is economy in the use of labor. And so we have seen, not only with the railroads, but in every department of industry, a lavish investment of capital in order that the cost of production might be cheapened.

Now let us suppose that all this great expenditure has been wisely made, and in the main I believe that it has, that every dollar which has been expended in the improvement and betterment of railroads, in the extension and better equipment of industries, will effect economies which will result in a saving equal to a fair interest return on the capital so invested. But, granting that the investment, from that point of view, has been wise, a consideration which we have perhaps in some measure lost sight of is that this whole great movement of improvements and better-

ments has been drawing from the fund of liquid capital and converting it into a fixed form, so that such capital cannot be fully returned into liquid shape, from the result of increased earnings, before the next ten or fifteen years.

If a farmer were to ask a country bank to loan him ten thousand dollars to put up new buildings and generally improve his property, the banker, while admitting that the expenditure might be a profitable one in the added return which the farm would give, would say that the proposal was not a good banking proposition, that bank funds could not properly be tied up in an investment of that character, but must be loaned for objects which, in the natural order of the commercial season's progress, would liquidate the debt in a much shorter time than would be possible were the capital to be converted into such a fixed form of investment. Recognizing this principle, the National Banking Act very wisely prohibits loaning upon real estate. Sound as the security is, it is not within the lines of the banking principle which embodies the practice of making only such loans as will in the natural order of business liquidate themselves within a few months.

If a railway manager were to ask from his larger bankers a million-dollar loan to

put into better bridges and heavier track, the same answer would be made. It would be unwise for a bank so to tie up active capital by converting it into a fixed form of investment. Profitable as the banker might be convinced the investment would be in the greater economies which it would bring to the operation of the railroad, he would see that it would be unwise financiering for him to loan his deposits for conversion into a fixed form of investment which could not be liquidated should his depositors begin to reduce their deposit lines. Securities issued for just such purposes, however, form much of the basis of this increase of four billions of loans. The loans are excellent so long as A can sell his collateral to B should A be called upon to repay, but if A and B should both be called upon to pay, there is nothing in the nature of these loans which will permit them rapidly to work out toward liquidation in the natural order of things. It is, in effect, a loaning of bank credit for conversion into a fixed form of property.

If, say, two-thirds of the total income from industrial investments were to be returned to the betterment of properties, and there should be issued in place of the capital so spent additional securities, the process would be wise and beneficial. If, on the other hand, there should be converted into

the form of fixed property by expenditures for improvements and betterments, a total amount of capital considerably exceeding the total annual income from such investments, the result in the end could lead only to disaster, no matter how wisely these expenditures for betterments and improvements might be made — because in the process there would be absorbed a larger and larger amount of liquid capital into the form of fixed investment, banking reserves would be reduced, and when bank deposits were demanded, though there might be the soundest of security back of them, it would be in a fixed form unavailable for liquidating the debts due to depositors.

It must be admitted, I believe, that we have been converting too great an amount of liquid capital into fixed forms of investment. What is the cure? The cure is, of course, to reduce the expenditures of that character so that they will come within the line of safety. What is the line of safety? It is, it seems to me, something well within the total income from such investments. If we go beyond it, — if we convert into fixed forms of property more than the total income from the property, — we have gone beyond the line of safety and are borrowing from the future temporarily to bury the capital. We have the choice of one

of two things: Either to practise wise discretion or to go on borrowing of the future until we are brought up against a wall. The first course is consistent with continued prosperity, even if we do, to some extent, reduce the expenditure of capital for new construction, extensions, and betterments. The second course, if persisted in, will bring confusion, disorder, and paralysis on the whole constructive investment.

Another phase of this situation, and one which has aggravated the causes leading to an expansion of loans, and which has cut off from us the relief which we hoped for in the way of a foreign trade balance made tangible by gold imports, has been the rapidity and extent of the advance in prices. Back in 1895 and 1896 we were on a low level of prices, and we were imbued with economical ideas of administration. It was then that we began making the great inroads into foreign markets and our exports passed the billion-dollar mark. In 1898 our exports had so increased and our imports so decreased that we had a balance in our favor of more than six hundred millions, and that balance was tangibly reflected that year in a net importation of one hundred and five millions of gold. Then prices began to rise, the total of our exports did not hold up the next year, while our imports began to show a

marked increase. In the subsequent years we were fortunate in exceptionally favorable agricultural conditions, of bountiful harvests at home and scantily filled granaries abroad, so that our exports showed some further increases, but our imports went up more rapidly than did our exports until, in the fiscal year just closed we showed a total of imports nearly three hundred millions more than in 1898.

The whole general level of prices has advanced, and some of these advances, from the extreme low level of 1897 or 1898 to the high level which has been reached within the last two years, are the sharpest in our commercial history. Pig iron, for instance, advanced from less than \$12 a ton in October, 1898, to \$25 at the beginning of 1900. Steel rails doubled in the same period, the price going up from \$17.50 to \$35. Bar iron scored even a greater percentage of gain within a shorter time, the price advancing from 95c. a hundred in July, 1897, to \$2.60 in October, 1899. The quotation for clear pine boards has advanced from \$45 to \$73 a thousand; for brick, from \$4.50 to \$6; rope, from 5¼c. to 13c.; and salt, from 21c. to \$1. Take the advance of some of the Southern products in that same period. We see linseed oil marked up from 29c. to 68c., turpentine from 26c. to 50c., molasses from 28c. to 55c.

These extreme advances in prices have not been fully maintained, but the present level of market quotations is still 50 to 80 per cent above prices in 1897 and 1898 for many commodities.

So the list might be continued. These examples are extreme, and the low level was probably unduly depressed. But they tell the story of why our exports have failed to go on increasing, and they have been an important influence in the inflation of bank credits.

When a railroad company had to pay \$35 a ton, as against \$17.50, for steel rails, its improvements become relatively very costly, and its issues of securities against permanent betterments must be on a much more liberal scale. The cost of production in every direction has been increased until we find ourselves actually importing from some of the identical markets that two or three years ago were in a panic over our invasion.

Prices of securities advanced along with other prices, and attracted the holdings of foreign investors, until we swept the continent of Europe almost clean of our stocks and bonds, and greatly reduced the holdings of English investors.

We still had an ample total of excess of exports, however, and out of our favorable trade balance we could pay for reams of

securities and still have something left. We did not stop at buying our own securities, but began making great foreign investments, to the astonishment of the financial world, turning the tables upon Europe and sending a great stream of credit for investment there. The result was that by the year 1900, in spite of a nominal foreign trade balance of nearly five hundred and fifty millions in our favor, the net result of the gold movement that year was an export of about four million dollars. The next year we brought in a few more millions of gold than we sent out, and we did the same last year, but since 1898 there has, in spite of the theoretical trade balance, been no significant shipment of gold in our direction.

There has, however, been a movement in international finance, which is not reflected in the customs statements. We have been building up a floating debt to Europe, made up of borrowings in the form of short time bills. The exact total of that floating indebtedness at the present time is one of the difficult problems of finance, but it must be very large. I have heard it estimated by financiers in foreign capitals as high as two hundred to three hundred millions. That estimate, I believe, is far too high; but, even so, the total we must admit is important.

Particularly is it important in view of the statistics of bank reserves, to which I

have before referred. In 1899 the national banks held 33 per cent of reserve. In their vaults was a good part of the one hundred and five millions of gold which had come in from abroad the preceding year. It was this excess of reserve which permitted loans to expand one billion three hundred millions since that date without adding a dollar to the stock in the bank vaults of specie and legal tenders. But now we have gone to the limit in that respect. This last report shows less than 21 per cent of reserve for all the national banks of the country. Not one of the three central reserve cities was up to the legal limit. Twenty-two of the thirty other reserve cities were below the legal limit.

We have seen what a great expansion of deposits and loans both, remember, almost wholly but evidences of bank credit, could follow the increase in the reserve basis that came with the gold importations of 1897 and 1898. We see from this last statement of the Comptroller that the expansion has reached the utmost limit possible with the present basis of specie and legal tenders. Is it not well to ask, What of the future? If a hundred-million-dollar importation of gold can serve as a basis for an expansion of so many millions of deposits and loans, what will an exportation of one hundred millions mean? Will not the answer lead us to pon-

der on the probable effect of future gold movements? Does our foreign commerce give promise of a trade balance great enough again to induce gold to flow in this direction? Let us examine recent records. For the first nine months of this year our imports increased over last year fifty-six millions, and it must be remembered that the total imports for last year were three hundred millions more than in 1898. On the other side of the book, our exports for the nine months of this year decreased one hundred and eight millions, so that the record for the nine months shows a net balance one hundred and sixty-four millions more unfavorable than the corresponding nine months of the previous year. In the same time we have lost eight millions of gold. For the twelve months ending with September our favorable trade balance was 420 millions, against 641 millions for the previous twelve months, a decrease of two hundred and twenty-one millions.

The evidences, then, of advancing prices that check exportation and increase importation, the absorption of our favorable trade balance in foreign investments and in the repurchase of securities, the uncertain totals of our floating indebtedness represented by short-time finance bills, all taken in connection with the fact that any reduction of the

specie reserve held by banks must be followed by liquidation which will again establish the proper relation between reserve and deposit liability, would seem at least to point to the conclusion that this is not a time favorable for the expansion of bank credits.

I wish by no means to present an alarming view of the outlook. What I do wish to do is merely to sound a conservative note of warning. I believe there are in the situation tendencies in which are elements of possible danger. On the other hand, I by no means forget the long list of favorable conditions upon the opposite side of the account. I have the most absolute faith in our ultimate commercial ascendancy. I believe no one who has carefully studied industrial conditions in this country and in Europe can reach a conclusion unfavorable to the prospect of our own progress. We have the cheapest and most nearly inexhaustible supply of raw material, the greatest genius in the handling of machinery for its conversion into manufactured products, the broadest single homogeneous market in the world upon which to base substantial domestic business, which will serve as a foundation for foreign commercial conquest. We have numerous advantages over our competitors, and in the end the combined effect of these advantages is absolutely certain to place us

foremost in the world's commercial ranks. It is in no wise opposed to this view of ultimate commercial supremacy — a view which no one more strongly holds than I do — that I have pointed out conditions which I believe, if not guarded against, will threaten for the time being our continued progress toward that goal. A judicious recognition of the restricting conditions now visible in our financial situation may save us from disaster and humiliation later on, — a humiliation from which recovery will be slow and painful. If a realization of these dangers and an effort to avoid them shall in any measure result from what I have said to you, I shall consider this opportunity for meeting you doubly valuable.

THE ULTIMATE DEPENDENCE OF NEW ENGLAND UPON FOREIGN TRADE

An address delivered before the Commercial Club of
Boston, March 19, 1903.

A MOST significant and interesting feature of the American commercial situation is the marked change which has come in the last two years in the attitude of our people toward foreign trade. In the period just following the Spanish War, the dominating commercial note in this country seemed to be sounded in praise of the increase of our exports and the extension of the field of our foreign trade. That note rose, indeed, to a trumpet blast when our exports expanded to a point that gave us a favorable trade balance of more than \$600,000,000 in a single year. The commercial world stood aghast at the strides we were making in our entrance of the world's markets. It came to be called an American invasion—an invasion without force of arms, but as profound in its effect as had been, in days gone by, the consequences of many a military

triumph. The old world was shocked at the tremendous pace of our progress. Our total exports reached a billion dollars, and we were filled with commercial pride, but almost before we were used to those figures, they had expanded five hundred millions more, and reached a point nearly double their average in the ten years prior to the beginning of this period. In six years we sold abroad in merchandise, produce, and manufactures two billion dollars more than we bought. And we compared that colossal figure of \$2,000,000,000 with a foreign trade balance, built up from the date of the foundation of the Government, through all the years up to the beginning of this period, which aggregated only one-sixth of that six years' record. Our exports of manufactured articles jumped \$100,000,000 in a year, and followed up that increase by as much more in another twelve months, and almost in a day we came into successful competition with markets which had never before known our products, and we brought defeat in commercial struggles to great houses which had for generations known no successful competition.

This was an invasion indeed, and properly we took a great national pride in it. But in the last two years this invasion has become almost a retreat. Instead of our manufac-

turers supplying our home demand more fully than they had ever supplied it before, and wresting market after market from established traditions of the world's trade, we have been becoming a better and better market to sell in and a poorer and poorer market in which to buy. Our imports have moved up steadily. The volume of our exports of manufactures has ceased to show the wonderful expansion which marked its period of development when was coined the phrase, the American Commercial Invasion.

Not only have the statistics of the situation changed, but our mental commercial attitude has changed. There has been radical variation in the emphasis of our commercial development. We find to-day a great many people who believe that this sudden loss of interest in foreign commerce is a natural reaction from an abnormal condition. They declare that a nation whose undeveloped resources are as vast as those of the United States had best confine its attention to its home field; that a nation where the possibilities of internal development are only beginning to be realized, even in localities long since fully settled, offers, in its great homogeneous markets, attractions to our manufactures which make any possibility of foreign trade expansion look small and cramped. They believe that a nation which

has, within a decade, increased the capital invested in its manufacturing enterprises by three and one-half billion dollars, a nation which, in that same ten years, has shown a growth in numbers exactly equal to the whole population of Mexico, offers internal opportunities greater than can possibly be found in the well-worked markets of the old world. A nation, they think, which has increased its actual production of coal in a decade by almost as much as the whole production of its greatest competitor at the beginning of that period, which has nearly doubled its output of iron in the same length of time, and in that field also passed all competitors, and which, for both of these great products, is offering a home market so keen that no thought of export can be entertained, a nation which embraces all resources and all zones within its boundaries, — such a nation, they believe, in the very nature of things, cannot be permanently dependent upon foreign trade. They point to the relative unimportance of even our expanded foreign trade if we compare it with the vastly more rapidly expanding domestic commerce. Measured by whatever standard one will, they say, the predominating importance of the domestic markets is emphasized.

I do not follow that line of reasoning al-

New England and Foreign Trade

together. I admit that it has great force and, speaking broadly for the whole country, I believe that paramount to any possible consideration of foreign trade, in the present day at least, is the importance of the development of our domestic markets, and the importance, — and I would particularly emphasize this point, — of keeping corporate and financial methods directed along right economic lines which will leave these vast internal commercial interests free to follow their natural lines of expansion. Those general considerations, however, are not equally applicable to all parts of the United States. Least of all, I believe, do they apply to the situation of New England. The Middle States, the Mississippi Valley, and the South may, indeed, look forward to a commercial future whose confines need not extend beyond the national boundaries, but I believe that for the New England States any large measure of future prosperity must be sought farther afield.

You gentlemen of the Commercial Club, you who have been a part of the proud commercial life and development of New England, do not need to be told of the intimate identification of the New England States with the industrial growth of the whole country. The view which I have personally had has emphasized in my mind

the important influence of the New England commercial life upon the development of the West. It is the view of the outsider, the Westerner, but it leaves me none the less filled with respect for New England's business traditions, New England's enterprise, New England's initiative, New England's commercial character. I hardly need to recall, here in this assemblage of Boston commercial men, anything of the historical development of New England's commercial position, anything of the time when the foreign commerce of the country centred at this port, of how New England built the ships of the country, and how New England's merchants were the boldest and most successful traders in all the world's commerce; nor do I need to speak of these same characteristics in the development of New England's industrial life, how the great manufacturing industries found their beginnings here, — the textile industries, the machine-tool industries, the rubber and leather; even, if we go back to Revolutionary times, we find the iron and steel industries, in their national beginnings, nurtured in the congenial atmosphere of this Commonwealth. For a time New England was largely self-centred, her own people were busy developing her own resources. The accumulations of half a century of profitable trade became

the greatest available fund for the development of Western prairies and for opening Western mines. Great railroad corporations, expanding from trunk lines into systems, were built up and controlled by New England capital. But better than the sending forth of capital, better than the building of railroads, the opening of mines, the organization of banking institutions, was the impress of men with New England characters, who went forth to all the States from Ohio to the Pacific, so that a greater New England has come to stretch clear across the continent, and New England methods and New England consciences are leaven in the commercial life of the great cities of the West away on to the shores of Puget Sound.

An unusual phenomenon was at last presented. Attracted on the one hand by the high wages of the West, and on the other by the free lands, and at home pressed by the competition of Western wheat and cattle, the rural New Englander, by thousands, sought more attractive occupations. The Western States took up the task of feeding the fast-growing populations of the mill towns, sending their food-stuffs and raw materials in exchange for the manufactured goods which they could not yet make in the West. New England may be credited with a vast influence in the Western expansion

of the United States, because she furnished, more than any other part of the country, the men, the money, and the manufactures which made that expansion possible.

That movement, however, has been largely accomplished. The South and the West are now in a large degree equipped with the machinery of civilization. They are no longer under tribute for men or products, and in great measure are also becoming financially free, the last few years of prosperity having discharged vast indebtedness. The position which New England held as a manufacturing source to supply the wants of the West and South, has in turn been contested and in large measure lost. The great cities of the West and South have changed their distinctive character as distributing points, and have become manufacturing centres in turn. The remarkable expansion of the cotton industry in the South, the rapid growth of leather manufacture in the West, taking from New England its prominence in both fields, are but two illustrations among many. In a decade the cotton mills of the South increased the value of their output from \$40,000,000 a year to nearly \$100,000,000; while in the same time the increase in the output of the cotton factories of New England has been but little over 5 per cent. The boot and shoe industry in

the West has shown even greater expansion. A development of signal significance to the future prosperity of New England can be found in the rapid expansion all through the West of the manufacture of all sorts of highly-finished goods. Communities that have heretofore been confined to the production of food-stuffs and raw or roughly finished materials, have come into sharpest competition now with some of your longest-established industries. The lines in which the manufacturers in the East, and particularly New England, had until recently a control approaching to monopoly, are now being diffused over the very territory which these factories of yours once almost exclusively supplied.

The industrial future of the United States certainly lies in the complete development of the resources of every state, not merely in agriculture, mining, and lumber, but in manufacturing as well. And so, when we look at it properly, we can but approve of this development, which will realize dreams of industrial independence to many communities.

New England is deeply concerned in this change. It is impossible to conceive that her industries are to be permitted to decline, and still, if there is to be such radical modification of commercial and industrial lines, does it not inevitably point to the necessity for

New England looking toward new fields? I do not for a moment believe that any tendency of our industrial development as a nation is going to result in industrial decadence in New England. Industrial civilizations which are rooted deep in the solid rock of established prestige, and which are fortified by a century's accumulation of technical and financial equipment, are not suddenly torn up and transplanted to new localities, even though those localities may be found more favorable for economical production. It is not with any sudden wrench that industrial supremacy passes from a state. There may be a gradual decrease in the number of new enterprises, a settling of the population into a stationary condition, a slower development of new railroad facilities, a relative decline in wages, a level condition of bank deposits. Evidences such as those may be read as indicative of most important new influences. If they are read in connection with the statistics of heretofore undreamed-of expansion in other localities, they may be taken as quite serious enough to command the best thoughts of such groups of men as compose this Commercial Club, but they do not necessarily foreshadow decadence unless you who make up this commercial life sit idly by.

They must, it seems to me, arouse new

initiative, demand greater energy and keener thought, an intelligent questioning as to what directions the new development shall take if the old lines have encountered insurmountable obstacles.

New England's bank capital is not increasing. Her bank deposits are taking slow steps forward, compared with the gigantic strides which the country elsewhere has shown. Your stock exchange shows no great evidence of new corporate development within New England itself. New England capital is far more active in Southern cotton mills than it is at home. Other states, whose railway development was long since apparently complete, are spending hundreds of millions upon improvements and betterments, but New England railroad companies are doing comparatively little. Railway traffic here has increased less rapidly than in any other part of the country, and, finally, one of the most significant tests, the skilled American labor which has built up the manufacturing supremacy of New England is not maintaining its proportion to the population. The increase in the population of New England is largely an increase of the foreign-born.

Such general indications as these may have less significance than appears to me. You can judge of them and know better

what modifying influences and conditions should be taken into consideration, but it certainly is not an answer to say that New England has reached a stationary condition, has touched the limit of her commercial possibilities, and that, while other localities are uncovering new resources and making vast development, New England industries should be expected only to pursue the even tenor of their way, content to maintain the position which they have achieved, but bound within limitations of natural resources and conditions which cannot be broken through. That attitude of mind would, perhaps, be comfortable, but I do not believe it is tenable.

It is trite to say that neither state nor individual may stand still — that they must either go forward or backward. Trite as it is, however, it is particularly true in the fields of commerce and industry. When a locality no longer holds out attractive rewards to skilled industry, when there is no longer room for the new-comer, when a stationary condition has been reached, experience has abundantly proved that such a locality is in danger of decadence. The active emigrate, surplus capital is invested in other fields, the competitive advantages which long years of struggle have attained are not preserved, — a community which has reached such a condition and rests con-

tent with what it has obtained, is ultimately in grave danger of being hurt by the competition of its more vigorous rivals.

Do not understand me as saying that New England stands in that position. I would not go further than to suggest that some broad indications point to a possible approach to it, that market conditions have undergone radical changes, more radical, perhaps, in their significance, than some of you who are close to local conditions here have fully realized. Conditions which have made the great industrial growth of New England possible are changing. Some of your advantages, I believe, are passing away. The markets upon whose contributions New England has thriven are declaring independence, and every one of these indications, it seems to me, points to the necessity for some new outlet for your manufactured products.

Such outlet is to be found in foreign markets. It seems to me that New England is so situated, geographically and industrially, and is so equipped in the temperament, ability, and energy of its people, that it is the most natural thing to expect — indeed, it is the perfectly logical sequence of historical development — that the head and centre of a great foreign trade development should be found here. I am firmly convinced that we

have as a nation the elements which would enable us to establish ourselves in high position in the markets of the world. We have the raw material, and we have an unequalled genius for mechanical labor, and, of importance almost as great as these, we appreciate the value of organization, of combination, of doing things broadly and in great volume.

While our foreign trade record of two or three years ago, and, indeed, the record of to-day, is one of which we may well be proud, I believe that it marks only the first beginnings of what we may have in the way of foreign trade if we will seriously devote some of our best energies to it, if we will put into the work of establishing ourselves in the foreign markets some of the same energy, intelligence, and genius which we have put into the development of our internal industrial affairs.

This foreign trade of ours, vast as it is, has been an almost haphazard growth. Sometimes, when business was slack, or the desire for a European vacation strong, a manufacturer would take a glance at the European field, with a result possibly of some good beginnings in the way of trade. Too frequently, however, these good beginnings have not been followed up. If orders arrived when business had turned active again, they were ignored. We have lacked

system, we have lacked persistence, we have lacked, in this field, numberless qualities which we really have in abundance, and which, if applied to foreign markets would bring forth splendid results.

Almost universally we recognize the necessity for association and organization. It is a part of our political creed. It has in the last few years become the cardinal principle of our commercial life, and here in the United States, more than anywhere else in the world, is seen the very highest development of commercial co-operation, co-ordination, organization, combination. Seeing that as clearly as we do, having before us at the moment the most remarkable illustrations of the effect on commercial life of organized and consolidated effort, it seems strange that we have as yet so dimly recognized the prime necessity of the application of these same principles of combination and organization to the building up of a foreign trade. I believe that a recognition of that and a crystallization of that recognition into a great, well-organized movement embracing the widest interests, having the most intelligent direction, and controlling the necessary credit and capital, would enable this country to make a great impression upon the foreign markets with its manufactured products.

Business and Education

These are general observations. Suppose I try to make the illustration a little more specific, but in doing that I beg you to remember that I am but an observer of the practical workings of foreign trade, and that I merely have gathered from a rather wide opportunity for observation what seem to me a few well-grounded principles.

If I were to try to put in a few words some of the main difficulties which seem to me to hamper the development of our foreign trade, I would say that they chiefly consist of a lack of continuous intelligent representation in the foreign markets, the absence of proper facilities for the exhibition of samples, and bringing to the attention of buyers the variety, quality, and grade of goods which we have to offer, the stubbornness of our manufacturers in meeting the specific peculiarities and requirements of localities, our disinclination to vary from those standards which have, in their time, enabled our manufacturers completely to outdistance all the rest of the world in many directions; the failure of our manufacturers to quote prices for products laid down in the buyer's market, so that the difficulties and uncertainties of calculations of foreign money values, of exchange rates, of shipment charges, are eliminated; and finally, and of almost as much importance as all else, the

indifference of our manufacturers toward taking any steps looking to a proper consideration of credits of foreign buyers, an almost rigid attitude of demanding payment when the goods go on shipboard.

If I am right in discerning these as some of the chief obstacles in the way of a more rapid extension of our position in the foreign markets, then I believe a plan which might operate to remove these obstacles is such a combination of interests of our exporters as will make it possible for the exporting interests of the United States to be continuously and intelligently represented in the foreign markets. Just for the purpose of putting a thought in your minds, crude, perhaps, in its first formulation, but having in it, I believe, elements which would make for a tremendous development in our export trade, let us suppose that we had an organization of great financial strength, having in it the right elements of our own commercial and manufacturing life, and projected for the purpose of energetically and intelligently representing broadly our exporting interests in the world's markets. Suppose such an organization should establish exhibition rooms in various centres of trade throughout the world, having there expert salesmen and engineers equipped for the work of repre-

senting these products, — men equipped with technical training, with knowledge of the language, and with good understanding of both domestic and foreign conditions. Suppose such an organization should stand between purchaser and producer, guaranteeing on the one hand the delivery of goods absolutely according to sample, on the other hand guaranteeing the credit of the purchaser. If such an organization were equipped with men of trained intelligence, keen observers of commercial conditions, who would be quick to see an opportunity and to devise means of grasping it, and if that organization had behind it the co-operation of great manufacturing interests here, I believe wonders could be accomplished.

While Europe has the greatest respect for our industrial capabilities, there is not an old-world manufacturer who does not look upon many of our crude methods and haphazard intermittent efforts in the field of international trade as his refuge of safety from a competition which could not otherwise be repelled. Systematic organization and training of men for work which you in New England once knew how to do well, but which the rest of the country has never known much about, a permanence of effort and greater flexibility in our manufacturing standards, those are the things that are

needed to press our foreign trade into the position it should rightly occupy.

There are no people better qualified for such a struggle than the commercial classes of New England. It is going to need education, but you have here the facilities, better than anywhere else in the country, if you will but bend them to the needs of this situation. Train men to know the commercial world and to know the commercial methods of other people than our own; train them in language, do for them what is being so well done by the commercial schools of Germany, and they will repay the effort.

I can think of no more fruitful field of inquiry for this Commercial Club than that of the need of a school for training young men for international commerce. I believe if you would make a study of that question and would come to realize what a great impetus could be given our foreign trade by a school which would turn out young men thoroughly equipped to enter such a field of activity, you would find yourselves enthusiastic advocates of some radical departures in education, and if, as a result of such investigation, you should graft on to one or more of your great institutions of learning a course intelligently designed for this purpose, you would not only be offering golden opportunities to your young men, but you

would be placing the whole commercial country under another debt of obligation to you, because you would again be ready to send out into a new field New England men, with New England characters, equipped for their task with New England thoroughness.

POLITICAL PROBLEMS OF EUROPE AS THEY INTEREST AMERICANS

I. THE AWAKENING OF INTEREST IN EUROPEAN AFFAIRS

OUR interest in European affairs has been undergoing marked change in the last generation — even in the last half dozen years. We do not need to look back far to remember the time when we had little concern in world politics. Questions of European public policy, the tendencies of political currents, and the objects of national ambitions, were without practical interest to the average American. Even European war meant in our minds only that we were to sell more wheat and provisions, and we looked with greater interest at market quotations than we did at the questions which might involve nations in conflict. We were not only outside the range of the game of European diplomacy, but we lacked reason for having a keen, practical interest in European social and industrial conditions.

We were concerned with Europe's general prosperity, for Europe bought our produce;

but the training, efficiency, and organization of European labor, the effect upon industrial progress of current legislation and of sociological tendencies, all had more of an academic than a practical interest for us. Important as was our foreign trade, four-fifths of our exports were the direct products of the farms, ranches, and forests. Our fields could fear no rivalry, and our workshops had not begun to challenge competition.

With the military and industrial successes of the last half dozen years, however, have come many and far-reaching changes. Not only is our present interest in world politics, in its relation both to our own political system and to our national ambitions, a matter of recent growth, but we have another quite immediate interest in the political conditions and development of other nations — an interest that leads us to measure the effect of national conditions and development on the efficiency of industrial and commercial competitors.

Now that we have taken our place in the first rank as a manufacturing nation and can see an inevitable destiny leading us toward world-industrial competition, all the questions affecting the relative efficiency of the other great industrial countries in competition with us in the world markets become of practical importance to every American.

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The farm boy, the shop apprentice, the clerk, the worker in every field of American life, must henceforth have a more and more intimate personal relation to European conditions, problems, and tendencies. That is true because the conditions that are affecting our great industrial competitors, the problems with which they are concerned, the difficulties which they are encountering, the successes which give them fresh courage, will all have an increasing influence upon the net results of the day's work of the average American.

For these reasons I believe that we are ready to give a more intelligent study to European conditions, and that it will be practically worth our while to gain a clearer comprehension of the political life of other nations, and of their social and industrial problems, and the efforts directed toward their solution. I believe that we are coming to recognize that we need something more than the bare facts regarding important events. We need to comprehend underlying causes. We need to understand more of the perspective and the significance of foreign events in their relation to our own affairs. It is important, too, that we not only keep abreast of those events which constitute live news in the mind of the cable editor, but that we should understand those

social and industrial conditions, those currents of public thought, those national and racial attitudes which have now all come to form subjects of distinct practical interest to us, because they are matters directly related to our pocket-books, matters with which our material prosperity must henceforth have definite concern.

I am profoundly impressed with the importance of the awakening interest in European affairs and of the value of the clear observation of these affairs through the eyes of practical American business men. The more rapidly we lose some of our complacency and come to recognize that while there are many things that we do better than other people, there are many other things that we do worse, the sounder will be our understanding, both of our own resources and the strength of our competitors in the international industrial development.

In the old days, when a man had passed through his apprenticeship in some trade, his ambition impelled him to travel from one centre to another and observe the art and learn the methods that were practised wherever his trade had gained pre-eminence; and after this travel and observation he was proud to call himself a "journeyman workman." That is the German custom to-day, and there we find not only journeymen

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craftsmen, but journeymen manufacturers, merchants, and bankers — men who are observing with intelligence and minute care the methods and practices of their international competitors. Just such observation is healthful for us. While it will cause the American journeyman to lose much of his Yankee complacency, it will in the end give him the firmest foundation upon which to rest his national pride and hopes for the national future. It is merely as a “journeyman” business man that I should try to write of some of the European conditions which have come under my observation, and which seem to me of practical interest to other Americans.

In a survey of Europe which seeks to examine the qualities of nations as industrial competitors, present and prospective, the fundamental consideration must be the stability of governments. Political stability is an absolute prerequisite to industrial prosperity. Where the energies of a people are constantly diverted to the settlement of political questions, the advance of commerce and industry is greatly hindered. Stability of conditions is the foundation on which great commerce is built. A period of stability in our own political conditions is always recognized as most favorable to business development. The possibility of a change in money

standard or in customs tariff unsettles every branch of commerce. The political stability of our industrial rivals is a consideration of the most practical importance to every one concerned in our commercial life, and in any analysis of the strength of our competitors that is the first phase of the subject to investigate. Is industrial development in Europe to go forward under about the same political conditions as now exist, or do the growing expenditures and increasing debts, the weight of military organization and of naval requirements, the growth of socialism and the unsettling of established conditions, all combine to endanger the European political fabric and threaten essential modifications of government which will affect the whole commercial and industrial life? Is the map of Europe drawn in indelible colors? Will the development of commerce and industry proceed with as much protection and aid from the government and with no more obstacles and disabilities than now? Are the dangers of wars imminent? Are the economies of peace secure? Answers to these questions must all have immense influence on the future of our industrial competitors.

Since the impetus which the Czar gave to the arbitration movement through the Hague Conference there has been much

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progress — progress that has been recently emphasized by the conclusion of treaties between England and France, France and Italy, Sweden and Denmark, and which may even record the striking achievement of an arbitration treaty between France and Germany. These treaties, however, are little more than expressions of national good-will.

It is in France that the arbitration movement has shown the greatest vitality. The well-directed efforts of the Baron d'Estournelles de Constant have been largely responsible for this. He has, within a few months, built up a group of more than one hundred deputies who, while still affiliating with various other groups in the Chamber, form a tolerably compact organization in favor of international arbitration. The expenses of militarism, the increasing budgets, the growing difficulties in the effort to make taxation equal government requirements, the constant and enormous additions to the permanent national debts, all spell ruin for the great powers of Europe in the mind of the Baron de Constant. He is most pessimistic in regard to the financial future of the nations of Europe if military expenditures are to keep up to their present scale.

The Baron de Constant impressed me as a man of tremendous earnestness. The

strength of his belief in his own pessimistic picture of the future of Europe, unless the tendency toward increasing armament and ever-growing expenditures is checked, undoubtedly has given him great influence, not only in the French Chamber, but with the political leaders of other nations as well. When he talked to me of the financial ruin which he saw ahead, and of the certainty of war which must result by the time the growing strain of militarism reached the inevitable breaking point, he impressed me, not alone with his earnestness, but with the force of his reasoning and the gravity of the peril which he sees. It is not surprising, in view of the budget and balance sheet of France, that a Frenchman sees this peril with special distinctness. The success which the Baron de Constant has met with in bringing together a working group in the French Chamber and in successfully completing a treaty with England is great enough to entitle him to high credit as a statesman. For many years there has been in France a most intense national prejudice against England — prejudice that has frequently descended to scurrilous abuse, and it is certainly remarkable to find so marked a reversal of public sentiment in the few months which have intervened between notable exhibitions of that prejudice and the

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recent acclaim over the completion of an arbitration treaty and the establishment of a cordial international feeling.

While great credit is due to the Baron de Constant for his efforts in giving practical form to this change in national feeling, the really potent influence was that of King Edward himself. When he planned a royal visit to the French capital, it was in the face of abusive criticism of England over the Boer War. His courtesy, tact, and good-humor produced a remarkable effect on the national temper of France. The return visit of President Loubet and the heartiness of the greeting which London gave him — a greeting more hearty, it was said, than he had ever received in Paris — was all that seemed needed to win the volatile French affections, and suddenly the whole race of journalists began to discover reasons for most brotherly cordiality between Frenchmen and Englishmen. All this worked in happily with the arbitration movement in the Chamber. There followed a visit of the arbitration group to London as the guests of Parliament, and a return visit of Parliamentary members as the guests of the French Chamber, and from this interchange of courtesies have resulted real understandings and sympathies such as have been markedly lacking before in the

international relations between those two great powers.

The effect of royal visits, the great diplomatic significance that attaches to them, and the genuine influence which they have in shaping the public opinion of entire nations, are among the aspects that strike an American observer as peculiarly interesting in European politics. Within the last few months in addition to the interchange of courtesies between the King of England and the President of France, there have been important visits by the Italian king to France and Germany, one of which had almost as marked effect in producing cordial national feeling between two nations as had King Edward's visit. Another royal visit that was planned, that of the Czar to Rome, was interfered with for some reason, and European journalists wrote endless columns of speculation in regard to the reasons for the change of royal plans.

The arbitration movement is undoubtedly gaining force; and still, at best, it is but binding warriors with threads. No one for a moment believes that any number of arbitration agreements or Hague Tribunals would hold in check a military movement when ruler or people were once aroused. Without doubt such agreements may do much to harmonize international prejudice

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and may be of great use in preventing friction over small differences — friction which sometimes grows into animosities demanding national bloodshed. Their usefulness is acknowledged by most of the statesmen of Europe, but no nation shows any inclination toward abating one jot of its military programme.

Increasing armament, larger armies, more expensive defences, and more thorough preparation is the order of the day everywhere in Europe. In conversation with public men and with many commercial and industrial leaders, I have never heard the opinion ventured that the leading powers of Europe are likely in the near future to disarm, or, indeed, materially to reduce their military expenditures. The German Socialists, it is true, make the reduction of such expenditures one of the principal planks of their platform, but in the same speech in which Herr Bebel arraigns the Government for excessive military expenditures, he castigates it for doing nothing to check the aggressive policy of Russia. There is plenty of grumbling over the taxes which support these vast armaments of Europe, but there is no deep-seated conviction in the minds of any considerable portion of the people of any of the great powers that their own nation should set the example of a reduction of military

and naval strength. Few things in Europe can be predicted with more certainty than that the outlay for defence and for aggressive strength will continue.

The bankruptcy of Europe, which such men as the Baron de Constant see, is perfectly easy of demonstration by any amateur statistician, who needs only a series of budgets and a short lead-pencil thoroughly to demonstrate such a conclusion; but so easily reached a conclusion might be wrong. I believe that it would be. It is true that the cost of the military establishment, the vast expenditures in constructing navies, the constantly recurring budget deficits, the terrible weight of taxation, are all real and painfully evident facts. France is the natural place to look for these pessimistic opinions in regard to the future of the great powers, for France has a debt incomparably the greatest in the world, and a debt that seems ever growing. To-day it stands roundly at \$6,500,000,000, a debt so great that every voter in France — and there is universal manhood suffrage there — every voter in France has a share of responsibility for the national debt equal to \$844. It is small wonder that this vast debt should give rise to apprehension. Only the unparalleled thrift of her own people has enabled France to market the tremendous blocks of *rentes*

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which have been the legacies left her by one finance minister after another. During the years of peace the succession of budget deficits have made almost as great increases in the debt of France as had formerly been piled up by the misfortunes of war. So it is easy to see how a Frenchman, with mind imbued with the great military expenditures and growing debt of his own country, should look out over Europe and note the cost of the great armies and see the stream of taxes that runs into the sea that navies may float there — sees everywhere a tendency toward increasing government expenditures and threatening deficits and nowhere means of escape through taxation, because taxation is already perilously high; it is no wonder that such an observer sees in the constant increase of government obligations an ultimate financial collapse and political disintegration of a character which might readily disturb the balance of power in a way no army could check nor treaty stay.

In spite of all that there is to sustain such pessimistic views, I am certain that the men most powerful in shaping the affairs of Europe do not see, at least in anything like the immediate future, any reason to believe that in Western or Central Europe there are to be radical political upheavals, sweeping social changes, or the financial break-down

of governments. The exception is the near East, the Balkan firebrand, where there are irreconcilable differences and implacable racial antagonisms, seething under impossibly bad government, and where, sooner or later — where, indeed, both sooner and later, for no single war can settle those vexed questions — there may be seen the fall of old governments and the upbuilding of new, the end of dynasties, and the creation of new national combinations. In the near East there is always imminent a catastrophe which might involve all Europe in conflict.

I am by no means rash enough to venture opinions of my own in regard to the political future of Europe. The question is too complicated, the undercurrents too many and too important, for the casual observer to reach more than a superficial conclusion. I have been fortunate, however, in meeting men of great importance in both the business life and Government councils of most of the capitals, and the impression which I have of Europe's political future is the composite of interviews with men whose opinions are worth attention. The impression which these conversations has left is one of political stability, one which leads to a strong belief in the unlikelihood of immediate radical changes. There may be socialistic triumphs, there may be growing parties

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with programmes of revolt against the existing form of government, there may be burdensome taxation and great military expenditures; and still, if one takes up one nation after another and analyzes its position in relation to the whole fabric of European politics, the practical man will, I believe, conclude that Europe is likely to go on for a great many years very much as it has been going on for a good many years past.

Take the situation in revolutionary France, the country that has had more experience in constitution making than all others in Europe. France is to-day really one of the most stable of European governments. There is small likelihood of France becoming involved in any war, and the reason for that does not lie in this great wave of popular approval of arbitration which is just now such a manifest feature of French politics, but lies much deeper. France has no serious ambitions for an increase of European territory. Alsace-Lorraine is a poignant regret, but not a military ambition. Perhaps the one dominant characteristic of the French nation as a whole is its penurious thrift; and every holder of F. 100 *rentes* is an advocate of peace because the economy of peace appeals to his pockets.

But the real reason why France may to-day be set down as among the most pacific of nations lies in this fact: France is not so much a republic, not so much a government administered by the voice of the people, as it is an oligarchy. The Government of France is really a government by a political dynasty, by a group of men and their political heirs, who have made a business of governing France, and, having left to them the centralized instrument of the Napoleonic system, have governed France, not particularly as a majority vote of the nation might have dictated, but as they have best seen fit — with some patriotism for France, and with much regard for their own place, power, and perquisites. This political dynasty has no disposition to risk anything on war, for war would mean one of two things. If it ended in defeat, it would mean that the French nation would rise up, as it always has risen when its sensibilities were really smitten, and the whole dynasty would be irrevocably tumbled out of office, to say nothing of the prospect of upsetting the form of government itself. But a military victory to France would have in it quite as distressing possibilities for her political dynasty as would a military defeat; for a military victory would mean a military hero, and France can never be trusted not to lose

her heart to a military hero. So sharply is this always in the mind of the Government that when the nations had a bit of police work to do at Peking, and under hardly any conceivable development could thereby garner many military laurels, the man who, by every right of precedence, position, and ability, should have gone into the Far East at the head of the French troops was kept at home, and a man was selected with abilities of a type that left no fear in the mind of the Government about his ever becoming a military idol.

France may give us occasional exhibitions of political turmoil. It is not improbable that the socialistic sentiment in France will continue to grow, and that there will be some evolutionary changes in government; but I believe that the solidity of the republic may be set down as one of the practical certainties of European politics, and that so far as the future of France, as a world-industrial competitor is concerned, we may count upon her industries being developed without serious interference from any political change.

If we turn to Germany we find there on the face of things much that might indicate impending radical political change. There is certainly political progress there — progress toward individual liberty and political equality, progress toward really representa-

tive government. If one were to try to put into a single phrase the significance of the political currents and tendencies, the real essence of the vital political life of Germany, it could well be said that it is to write "truth" into the constitution. Germany's constitution contains many fair-sounding provisions for liberty and equality, but it has not, in fact, furnished either liberty or equality to the humble German citizen. The constitution says that every man shall have equal justice, that every man shall be eligible to public office, and that there shall be fairness of franchise and of voting representation. In the practical operation of government none of those guarantees is fully kept.

The political life of Germany probably has a more direct practical interest for the American citizen than does that of any other Continental nation, for many of their political questions and their legislative problems directly concern us. That is true because of the barriers they are putting up against our exports of food products, and because of the work which the Government is doing in education and in legislation affecting social conditions — legislation that has most pronounced effect upon the efficiency of industrial competition.

There is an "irrepressible conflict" in

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the development of German national life. Germany is endeavoring at the same moment to be a great agricultural nation and a great industrial nation. Agriculture must wrest whatever it may of success from a stubborn, parsimonious soil; industry finds itself in a country barren of natural resources and lacking cheap raw material.

It is only within a generation that Germany's industrial ambitions have become internationally important; but within that generation almost all of the vital currents of German development have been flowing in the direction of industrialism. Industry has gained on agriculture, until to-day the national economic life is about equally divided between the two. The great progress of industry has seemed to the agricultural half of the nation to work great hardship to it, while the present hopes and ambitions of the industrial half seem to the agrarians only to be the planning for them of still greater hardships.

The landlord sees in manufacturing and commerce an unfair competitor for labor. The factory entices the laborer from his fields. Railroads and steamships, the landlord thinks, are a malicious innovation, because they bring the fields of Argentina and America into sharp competition with his own sterile acres. His only hope has been

in keeping out of Germany the products of other agricultural countries and by gaining from the Government higher and higher protection for his own products.

The landlord's antagonisms and complaints are by no means without foundation. He has certainly fallen on evil days. The march of events has made more and more difficult his financial position. While he has succeeded in laying enormous taxes on the foodstuffs of the German workingman, he has not freed himself from the difficulties of almost impossible competition. Every comparison which he makes with his former position and influence adds to his bitterness against the new industrial régime.

On the one side he finds himself pressed by what he regards as upstart socialistic doctrines and insistent demands for broader political rights, and even worse than that, the ever-reiterated demand for what seems to him ruinously cheap food. On the other hand, his long-established influence in affairs is assailed by a new aristocracy of wealth. When one remembers the historical position of the landed class, the landlord's view is not unnatural. All through German history the junkers have officered the army and led it to its fields of victory; they have supplied the statesmen and furnished the class that has ruled the country. It is small

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wonder that they feel bitter antagonism toward this industrial development. This new industry has successfully competed with the meagre wage the landowner was able to offer to the farm hand. Bleak cottages are left empty, and fields are robbed of labor. The landlord's late servants, over whom he ruled almost as ruled his feudal ancestors, have not only left his acres, but in the cities they have organized themselves into a political power and shout "bread usurer" at him, and in their determined demands for cheap food, keep up a constant warfare upon that protective tariff that is the only barrier the junker has left between his land and financial ruin.

All that is bad enough; but when this same industrialism which has touched the aristocrat in his purse wounds him also in his pride, when it builds up a new aristocracy, a new ruling class with strength and position measured by wealth, and begins successfully to assail the junker's immemorial influence in national affairs, the bitterness of his position, with his traditions of fortune and power thus being undermined, is not hard to understand.

So Germany has, in the irreconcilable differences between agriculture and industry, an "irrepressible conflict": On the one hand a landed aristocracy, long used to polit-

ical power — a power whose roots run back to feudal tradition, but whose very daily life is now hampered and made difficult by depression in agriculture; while opposed to this aristocracy of birth is a flauntingly prosperous industrialism, with its rebellion against class, its demand for the curtailment of the privileges of the nobles, its appeal for broader political rights, and more secure individual liberty. The struggle which will go on between these irreconcilable elements of the German nation must have in it constant interest for us, and an interest that is not merely academic, for the progress of the conflict will have intimate relation to our position in international trade.

When one gets even slightly below the surface in a study of political conditions in Germany, he cannot fail to be surprised that so little has been accomplished in the direction of political equality and freedom. The junker's influence has its roots in centuries of prerogative. In a generation Germany has become a great power, political and economic, but in that time there has been no material internal advance in the direction of freedom. Constitutional Government is a semblance and a pretence, not a reality. The Reichstag at first had little enough influence in shaping legislation, compelled as it was to work with a ministry in no wise re-

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sponsible to it and dependent for its life only on royal favor; but instead of gaining for itself that decisive power which the popular house should have in a really representative government, its actual authority has substantially diminished. It has relinquished much of its control over expenditures, and has also limited its power over income by agreeing to an arrangement for a rigid and intricate system of taxation which in its detail has no flexibility even to the wishes of the majority.

Germany is governed by a bureaucracy, and in many ways better governed than any other nation in the world. Popular representation has little existence, and the voice of the people small influence. Without a doubt the German governmental organization is the best bureaucracy, the most scrupulously honest, and, within its lights, the most painstaking and hard-working, that any government has trained to its aid; but the results are not popular government. The seeds of a desire for popular government were long ago sown in Germany. It is an expression of that desire, it is the political determination of the common people to write "truth" into the constitution, that gave the Social Democratic party in the last election three million votes — just under a third of the total. But the tremendous growth and

the sweeping victories of that party are not to be taken as showing a disposition on the part of the German voter violently to overthrow existing conditions. They are critical of the growing expenditures of the Government, particularly for the navy, and they resent the injustice of the arrangement of the constituencies under which there is the greatest inequality of representation in the Reichstag. They are a party of protest against many existing conditions, but they do not threaten the permanency of Government; and as they are sobered by increasing power and responsibility, their programme becomes in the main one which the average American voter would regard as an enunciation of fundamental principles of political equality and good government.

The point of view of the Social Democrats is mainly economic. They believe that the present economic development — a development nowhere better illustrated than in Germany — makes necessary new political conditions. They see in that development influences leading inevitably to the greater and greater substitution of machinery for hand employment, to the stifling of small industries by great combinations. They believe that it has a tendency to place the means of production within the exclusive control of a comparatively small number

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of people, and they hold that this small group has monopolized more than its share of those advantages brought about by the increase in productive capacity. They are thus led to believe that this whole economic development makes necessary a revision of settled convictions both in regard to capital and the influence of the state on economic life. They hold in general that the authority of capital must be narrowed, while the limits and rights of the state to exercise control in economic affairs must be enlarged. So much for their strictly socialistic doctrines. They have come to be notably mild, and there has been eliminated so much of what was the old school of collective socialism that the party seems hardly entitled to the name of Socialist.

The great wave of Socialism which has swept over Germany is really only a wave of liberalism; the foundations of the Government are in no wise shaken by it. Most of the demands which the triumphant Socialist party make are of a character which will tend toward increased industrial efficiency should the Socialist go on toward even greater success.

Germany, then, I believe, is a field which we should watch with the most intense interest for the evolution in political life which is sure to come, but that evolution has in it

only promise of stronger and better government, and no sign of anything that threatens the Government's permanence. There is much which we might well envy in the practical accomplishments of the German Government in the aid it gives to industry and the effect it has on commercial life; in the thoroughness and honesty of administration, and in the substantial benefits received by every citizen. Whatever there is of evolutionary change in the future promises more, not less, efficient aid to industry. Whatever modifications are worked out in the national life — and there may be many — promise to result in giving Germany better government, and in furnishing a more secure foundation for the upbuilding of her industrial life, developing her as a competitor and strengthening her as a rival.

Beyond all question America's greatest industrial competitor is Germany; the development in political life there promises no reactionary tendency in respect to industrial efficiency. Great as Germany is to-day as an industrial competitor, the coming years will make her greater.

Although we may find in France and Germany a preponderance of reasons pointing to political stability, what of Austria-Hungary? Is the political life of the dual mon-

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archy near its end? Is there to be dismemberment, with all the endless consequences to European politics which a partitioning of the empire would engender? Any amount of support can be found for the most pessimistic views in regard to Austria's political future. Statesmen and journalists have not hesitated to write most frankly of their belief that great changes are impending there. Diplomats of experience may be found who hold the opinion that the funeral bells of Franz Joseph will ring down the curtain on the last act of the Hapsburg sway, and that will be true in spite of the age of the empire, the strength of tradition, and the convulsion which the whole political fabric of Europe will undergo.

Certain it is that Austria-Hungary in its potentiality for political change is the most interesting country in Europe. The empire, with its peculiar duality of emperor and king, its two capitals, its triple ministry, its six chambers, its eighteen parliaments, and its dozen nationalities, offers a conglomeration of political ideas and ideals of racial antagonism and of parliamentary inconsistencies which have strained to the utmost the diplomacy of the beloved monarch. Franz Joseph has in many ways ideally managed the difficulties of his position. Without great strength, with his whole political

creed a belief in compromise which should not give up the essentials of power, and in diplomacy which should play off one warring element against another, and leave the throne unharmed, he has found success beset by many difficulties. Had he not possessed a personality which has strongly attached to him the great majority of his turbulent subjects, it is hard to see how he could have succeeded at all.

The average American hardly appreciates the political significance of the Empire of Austria-Hungary, nor the vast importance of the situation there to the future of Europe. Government there is more a display of hysterical sentiment than a political organization for national, industrial, and commercial advancement. It is not easy for us, with our assimilative power of turning all nationalities into Americans, to comprehend the intensities of the racial antagonisms of Europe. Nowhere do these antagonisms find freer play than in Austria-Hungary. The Poles and Bohemians retain memories of a past political greatness. The Magyars have as keen a pride of race as any living people. Every one of the dozen nationalities of the empire has racial ambitions of its own, an almost fanatical determination to exalt this language or that, and a total disregard for the general welfare in the

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struggle of many tongues and various racial ideals.

It seems absolutely hopeless to expect that the Austria-Hungarian Empire will eventually constitute itself into a confederacy after the German model — compact, homogeneous, centralized. If one looks for such agreement as affording the only political bands that can permanently bind Austria together, it is easy to conclude that dissolution, dismemberment, and partitioning must be written into her future, or to believe, as some do, that the future of the dual empire can be compassed in a sentence — that it is to be a new Balkan with a dozen little nations all at war, and in their racial prejudices that touch of fanaticism which will make them irreconcilable enemies.

There are numberless reasons which can be brought forward pointing to the end of the Hapsburg reign; but unpromising and complicated as the situation is, there is one impressive reason stronger than all those that point to dissolution, one reason why the empire will go on even after Franz Joseph's death and the coming of a far less politic ruler: No European nation is anxious for Austria's territory.

In spite of all the ambition with which Germany is credited, the weight of opinion in Germany is unfavorable to any extension

of territory at Austria's expense. There are reasons enough apparent why Hungary, with its racial prejudices, its own national ambition, and the certainty of its forming a new Reichstag party, should not be brought into the empire. There are reasons almost as potent why the German provinces of Austria would not be welcome. It is true those provinces are thoroughly German in language, sentiment, thought, and aspiration. Their folk songs and poetry are full of longing for union with the Fatherland, but there is no sentiment among the influential people of Germany which would tend toward taking these provinces into the empire, bringing, as they would, a great addition to the strength of the Clerical party, and laying on the Government responsibility and difficulties out of proportion to anything that would be gained. Russia has quite problem enough with her Poles, without wanting to reunite, by an absorption of Austrian territory, two parts of once partitioned and always unhappy Poland, and thus give new life to that national feeling which it has cost so much to subdue. The desire for a partitioning of Austria does not exist with the governments of the other great powers; but violent as are the internal dissensions, most of these differences will be temporarily harmonized before the danger of any development that

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looks like a recoloring of the map and an absorption into the stronger nationality of Teuton or Slav.

A vast force is wasted in the Austrian Empire by racial antagonism and parliamentary strife. Industry and commerce are kept humbly waiting while parliamentary mobs shriek in a babel of uncomprehended tongues. The whole economic life and development is hampered, and there is little reason to hope for better things. But there is even less reason, I believe, to expect that the political bands which hold these warring elements into an empire will be broken, and that there will be liberated in the very centre of the European balance of power a dozen independent nationalities to make a convulsion that would be as terrible perhaps as the events following the French Revolution.

An ambassador at St. Petersburg, who had had experience in many European courts, once said to me:

"I cannot put too strongly my belief in the solidity of the Government of Russia. Considering its vastness it is the most perfect going machine in existence. I have known Russia many years, and I believe the Government grows stronger rather than less secure. The Government is in the awkward position of having to solve the double problem of advancing and standing still. It

desires to advance industrially and commercially, but it must stand still as an autocracy. For it to thus stand still there cannot be too much education. The strongest influences in the empire to-day are on the side of the Government, and those factors are always growing stronger. There will some day, of course, be political advancement; but any one who believes that the occasional plots and disturbances that get to the surface here point to any real danger to the foundations of Government has but a superficial knowledge."

This view may not be generally agreed to in the light of developments in connection with the Japanese war. I know that there are observers of Russian conditions, whose opinion is well worthy of attention, who believe that Russia is on the point of a great political upheaval. The weakness of the Czar, the corruption of the bureaucracy, the inefficiency of government which has at some points been disclosed by the events in the Far East, lead them to believe that a political awakening is near, that possibly the great territory to the east of Little Russia, which has been filled by adventurous exiles and progressive emigrants, will break off from the old autocracy and form an independent government. All that might happen without greatly affecting political con-

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ditions in Russia itself. The day will undoubtedly come when a constitution will be granted, but even that in itself will not greatly change conditions. Whoever has travelled in Russia away from the cities, observed the inertia of that vast population of peasants, noted the influence of the Church, and how it has been used as a branch of the civil service in the control of the population, will understand how slow must come any political changes which will really radically affect the national life.

My own observation, which has covered a good deal of Russia, bears out most fully the expert opinion expressed above. There may be some slow evolution toward more popular political ideals, but the strength and solidity of the Russian Government is beyond our day to question.

Such a survey of Europe, then, as a journeyman business man might take, can but lead, it seems to me, to the conclusion that on the whole European political conditions to-day point to solidity and security. There will be change, but the change will be development along right economic lines. There is no reason to suppose that the development of political events is to make Europe less strong and able as an industrial competitor. From an economic point of view the political outlook there can be re-

garded with optimism. The development of politics and the evolution of government give promise of working toward greater economic efficiency, toward a more capable industrialism and an expanding commerce.

II. FRANCE AND THE CLERICAL PROBLEM

In the United States the business of Government is the government of business. Questions which come before Congress are nearly always related to business affairs. Once the running of the machinery of Government has been provided for, and the great appropriation bills passed, the further subjects of congressional legislation are with rare exceptions directly concerned with commercial or industrial matters. Congress is a board of directors of a vast business corporation; its problems are business problems; its main work, outside of the conduct of the Government departments, is the fostering of business interests, on the one hand, and, on the other, the control of business organizations.

There is not a member of either house of Congress who cannot with justice lay some claim to familiarity with business matters. The chief interests of all these members of Congress are business interests. The great

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legislative mainspring is the well-being of the nation's commercial and industrial life.

In European politics, legislative conditions and questions are widely different from those in our own political life. The American is at once struck by the peculiar fact that business men have small place in the parliaments there. Business questions are overshadowed by questions relating to class prerogative, racial domination and antagonism, church authority, bureau patronage, hereditary power. Legislative programmes frequently turn upon points of sentiment — sentiment of race, of religion, of class, of political theory, or dynastic hope. Broadly speaking, there is no party on the Continent standing solely for a commercial idea. There is no party programme that solidly unites its followers for or against some commercial measure. The platform of parties, the issues on which elections turn, the proposals brought forward for legislative consideration, have comparatively little concern with industry and commerce.

The business man's first surprise is over the number of controversies in the political life of Europe having no bearing at all on business. He finds there many important public questions attracting the keenest interest of a whole nation, but having no relation to the financial income of voters.

The European business man does not take to politics, nor does he seem to be much wanted in the political councils. There are three hundred members of the French Senate, and only forty of these are in any way connected with commerce or industry. In the French Assembly the business man is almost a total stranger. In the Reichstag at Berlin business interests are better represented, but in the parliamentary bodies at Vienna and Budapest, where sound commercial legislation is needed as much as anywhere else in Europe, there is heard only endless wrangling of many races. The conservative, sensible voice of the experienced business man is rarely heard effectively in Vienna among those diverse tongues which will unite in no phrase unless it means legislative obstruction.

The parliaments of Europe are far less representative of the people than is the case with us. Under the unfair system of apportionment in Germany and Austria a legislature representative of the people is out of the question. Emperor William's excursions into world politics would be rudely checked were his actions controlled by a Reichstag truly representative of the will of the majority of his subjects. In France the best elements of the population seem to view politics as they would a sinful occupa-

tion. The French Chamber is made up of the most voluble and least valuable elements of the nation. It has been well said that France presents the spectacle of a tranquil nation with an agitated legislature, and that in the Chamber, members freely apply such fitting epithets to one another as irresponsible, riotous, ill-mannered, and incoherent, while the great majority of the people whom these men represent are peaceful, thrifty, orderly, sober, and industrious.

No single language could produce the wealth of epithets that abound among the hysterical Czechs, Croats, and the dozen other races in the Parliament of Vienna. Many of these distinguished statesmen regard as the most complete political success that action which will effectually block all legislation. Political villification in the Italian Chamber has been cultivated to such a fine art that none but the bravest or the brazenest of statesmen can there be induced to take office.

When comparisons are made between America and Continental Europe, we can find much of which to be proud. Our growth, our wealth, our industries, our resources, our energy, all make flattering comparison with average European conditions. But I believe, in making such comparisons,

there is no one thing of which we have the right to be more proud than of the Congress of the United States. Better than any Continental parliament, it represents the people. The one legislative body of the world that is in any way comparable to ours is the Parliament of Great Britain. In character, intellect, methods, dignity, and in the truthfulness with which each represents the people, the British Parliament and the United States Congress stand in a class quite apart and above any of the parliaments of Continental Europe.

The parliamentary system has nowhere on the Continent developed along lines which produce the best results. The temperament of the Continental nations is not well adapted to party discipline. In a parliamentary system working at its best there must be a party of the Government and a strongly united opposition — two parties with well-defined lines of demarcation. Nowhere on the Continent does that condition exist. Political inclination there tends to the formation of many groups rather than two parties. The lines separating these groups are usually far from clear. An American must be struck by the obvious fact that seldom is the main consideration which holds a group together a distinct commercial idea or programme.

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Germany in some ways is an exception. Nowhere else in the world can be found such sharp party discipline as in the Social Democratic party of Germany. Elsewhere, however, the political groups are but loosely bound together. The bonds are usually of a sentimental or racial character, or a fleeting attachment to some political leader. Plans for sound economic legislation looking toward the development of the industrial and commercial life of the nation seem not to offer sufficiently potent reasons anywhere in Europe for holding together a political party. In England, at the moment, there is a sensational exception. Mr. Chamberlain's fiscal policy, a purely commercial programme, has made a new and clean-cut line of cleavage in British politics and has brought about one of the most remarkable political situations which England has seen within the last fifty years.

There is one type of problem to be found in almost every country in Europe from which happily we are in America altogether free. It has to do in one form or another with the relations between Church and State. It will be more clearly comprehended how great a blessing it is for us to be free from such controversies when something is understood of the bitterness, the blind sacrifice of general good, and the countless obstacles

in the way of political progress which these struggles engender.

The most striking instance of such a problem, and one with a phase particularly unfamiliar to us, is the French clerical question. In every European country there is more or less state support of the Church, and that has everywhere resulted in the relations between the Church and State forming at times the subject of bitter controversy. Not only has the one absorbing political question in France for several years been the suppression of the religious orders, but in Italy the strained relations between the Vatican and Quirinal form always an important feature of the situation. In Italy the problem reaches down into the very roots of political life, and must for a long time have a profound effect on the national development, presenting as it does a controversy of the first importance at every election and at every session of Parliament.

A majority of the most intelligent and best meaning voters of France believe that the life of the republic has been in peril. The general attitude of the Church, and particularly the character of the teaching of the religious orders, are the sources of this supposed danger. Nearly half of the youth of France have, even in recent years, received instruction in clerical schools.

The belief is firmly fixed in the minds of more than half of the voters that this instruction has tended to raise up enemies of France.

The struggle against the powerful religious orders is by no means a new one there. When the present Government came into office, with Waldeck-Rousseau as Premier, the particular mandate which it had from the voters was to curb the power of the religious orders, and especially to restrict their rights to teach. Curiously the law which Waldeck-Rousseau framed in 1901 almost exactly duplicated one which had been passed a hundred and fifty years ago. The orders flourished in spite of a century and a half of restrictive legislation. When the present Government began its campaign of repression, there were 325,000 members of the orders. They held real estate valued at more than a billion francs, and one of the complaints against them that particularly appealed to the small landowner was that so vast a property had almost completely been withdrawn from productive usefulness. The personal wealth of the orders was so great it would be difficult to estimate it. Its extent is illustrated by the fact that when the prosecution became severe the sales of their French Government securities were great enough to be the main factor in a

market decline that was regarded almost as a national calamity.

A feature of the situation that has been particularly trying has been the unstinted use of this wealth in elections to secure the success of clerical candidates, or rather, to compass in any way possible the defeat of the Republicans.

The relations between Church and State in France are defined by a concordat which stands to-day as Napoleon drew it. Catholics, Protestants, and Jews all receive allowances from the State, although the Catholic Church receives 41,000,000 francs of the 43,000,000 of such church subsidies.

The student of French institutions finds the living genius of Napoleon in many phases of government to-day. He seems less like a deposed ruler against whose system of politics nearly a century of effort has been directed than like a vigorous sovereign absent from France on a brief vacation. The influence of Napoleon, in the stamp he left on French institutions, seems after the vicissitude of succeeding monarchy, empire, and republic, and the passing of nearly a century greater than that of any living man. And so this concordat, which he drew in 1801, and which has passed unchanged through succeeding forms of government, has remained to become the chief

problem of French politics more than a century after it was signed. The concordat re-established the legal existence of the Catholic Church, which had been annulled by the Revolution. The ecclesiastical property confiscated by the Republican Government was not restored, and the Pope and his successors were bound not to move to disturb the purchasers of such property. Provision was made for state support of bishops and clergy in lieu of their appropriated property. The Government was given the right to nominate bishops. The Church, therefore, has naturally and inevitably been deeply interested and constantly an important factor in French politics. When the present republic came into being, a republic without republicanism, as it was called on the assembling of the first Chamber, the Republicans would have been in a hopeless minority had it not been for the discord between Royalists and Bonapartists. The Clerical party was distinctly anti-republican, and by its political activity and bitterness that party well earned Gambetta's denunciation as an enemy of the republic. His "*Le cléricalisme, voilà l'ennemi*" has for thirty years been a political war-cry.

Those who stand for the Republic have come naturally to count the Clericals as the enemies of the State. The Clericals have

left no lack of reason that this should be so. However vigorously the Republicans might fight the Clericals at the polls or denounce them in the Chamber they felt always the quicksand in the ground on which the enemies of clericalism were standing, because the next generation of voters were growing up in the clerical schools and receiving instruction which, even though it hardly warranted the charge of being directly seditious and threatening to the life of the State, was certainly not designed to make these youths Republicans.

This state of affairs resulted in a platform which was larger than any single party, a so-called Programme of Republican Defence, on which there has been room not only for Republicans to stand, but breadth enough for Radicals and Socialists as well. It has furnished the basis for the coalition of parties which forms the present Government and has made the common ground on which these groups, holding in some respects most divers political faiths, could be united into what is known as the Republican "Bloc."

The first change in the law as made by Waldeck-Rousseau in 1901 only went so far as to compel the orders to obtain authorization from the Government for their legal continuation. After Waldeck-Rous-

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seau gave way to Combes, the Government went at the subject in the most thorough-going manner, its aim being so effectually to disband the orders that there should be no possibility of their return to instil into the minds of the French youth doubts and questions as to the republic.

The struggle is one of the sort in which there can be drawn no straight line of right and wrong. It is undoubtedly true that the traditional attitude of the Church and of the Clerical party has been reactionary and generally unfriendly to the republic, that the character of the teaching by the orders has been open to most reasonable and vigorous objection by those who hold firm faith in the principles of republicanism. It is true that the Church has been active in public affairs, perhaps fairly earning the charge that clericalism is a movement "that trespasses, in the name of the Christian faith, on the domain of politics, and that, under the cover of religion, menaces the tranquillity of the state." There has been ground for objection to the growth of the wealth of the monastic orders, especially when they were directly engaged in commercial affairs. Particularly has there been room for objection when they used their wealth to influence elections. The more rapid advance of those army officers who

were educated in the clerical schools, compared with those who received their education elsewhere, has been an annoying evidence of the solidarity of clerical influence. There have been bigotry and narrowness, overzealousness and defiance of law, priestly exhortation better fitted to the stump than the pulpit, and even counselling toward resistance and defiance of law that was well fitted to neither.

It must be remembered, however, that there has existed a great and respectable minority holding the most sincere belief in the unwisdom of this restrictive legislation. The programme of the Government has struck at the deepest sensibilities of this minority. There has seemed to be undue haste and needless harshness. The subject touched many interests and appealed to many sentiments and prejudices. It had taken the Republican party thirty years to bring itself to put its fears into legislative enactments, and it could have well afforded to have used greater tact and less haste in enforcing the laws it passed. It has met intolerance with intolerance. It has come dangerously near violating fundamental rights and liberties in its struggle to subdue the orders which it declared were the particular enemies of those very rights and liberties. It has outraged the sentiments of a most important minority

and has earned by its methods some of the epithets it has hurled so vigorously at its adversaries. Still it must be remembered that the Republicans have had to engage in this struggle against a most powerful antagonist, one with wealth, organization, time-established position, and with the great advantage of religious bulwarks behind which to fight. It has been war; and war in politics, as between armies, is not the place to look for fine ethical distinctions.

The avowed aim of the Combes ministry to create a "lay" state so far as the schools are concerned, to give to the state a complete monopoly of education, is now a practically accomplished fact. But in setting up in the businesses of education, as in setting up in other businesses, there are attendant expenses. The Government has at once been placed under the necessity of greatly extending the national school system. Thousands of new schools must be provided. The expenditure of sixty million francs is at once required for building new school-houses. Then there is an added annual charge of many million francs on national and local budgets to provide for the salaries of the great corps of teachers. Not only were the teaching orders affected, but the nursing orders were suppressed too. Nearly all the hospitals had been economically man-

aged by the nuns; the nuns were replaced by lay workers, and the increased expenditures on that account have been great.

The French budget is one which has tested the keenest ingenuity of each succeeding Finance Minister to reach a satisfactory balance, and all these increased expenditures are bringing forward practical questions of revenue and taxation which are not always relished by even the most zealous supporters of the policy of suppression.

The point in all this that seems specially interesting to Americans is the nature of the controversy and the happy absence in our own political system of the elements that would make such a controversy possible. Here we see the political forces of a great nation absorbed for years in a struggle so bitter as to provoke scenes of the most violent disorder in the Chamber; and in the communes riots, active resistance to law, military suppression, and bloodshed. We observe a struggle in which are brought into fiercest play not only the ordinary political passions, but one in which bigotry, pious prejudice, and exasperated religious sensibilities are met by political intolerance. We see arbitrary power justifying in the name of liberty the invasion of fundamental rights. We note an enactment of harsh and unjust laws which their sponsors be-

lieve necessary to preserve the life of the republic.

Can we not, in the face of all that, listen with some complacency to the imputation that we are a nation of dollar worshippers and that we concern ourselves with no questions of politics that do not affect our pocket-books?

In spite of all the political energy that has for several years gone into the discussion of the French schools, it has not, unfortunately, led directly toward any effort to improve the existing school system. No party has given serious consideration to a plan insuring better educational preparation for the French youth. No party has made the development of a system of technical schools or the introduction of commercial training an important part of its programme.

The political life of the French nation has for several years centred exclusively about the school system, but there has been no awakening there to the need of advanced methods nor to the advantage of new courses such as have been adopted with admirable results in Germany. That was of course, impossible, considering the nature of the controversy. It will be hardly possible for some years to come. The national school system must now be organized and developed, and for a long time there will be

work enough to do to get it in smooth running order, leaving little room to expect radical improvement in methods or extension of scope. What has been going on in France is a fundamental struggle between the Church and State. Ultimately education will probably be benefited, but those on each side of the controversy have had only in mind the question as to which should control the educational system.

The eventual denunciation of the concordat is one of the certainties of French politics.

There are reasons, however, why the movement may now pause. There are other pressing questions, and the forces back of them are in a measure interlocked with those which have dominated the anti-clerical struggle — especially is that true of the demand of the Socialists. The consideration of that subject must be left to a later paper, as must also the aspect of the Socialist movement in other countries beside France.

III. THE PROGRESS OF SOCIALISM

SOCIALISM is a live political factor in Europe. There is a wave of socialism flowing over the whole Continent, reaching heights of much importance in Germany, Belgium, and France, and giving a distinct trend to political life in Austria and Italy.

It is of great importance to us because of

the vital effect which the success of the socialist parties would have on European institutions and upon the social and industrial conditions there. Of even wider importance, however, is this great political and social movement, because it foreshadows a tendency which we are likely to see gain great force in our own country. It seems to me not improbable that we shall, in the next few years, hear much of socialism in our own political life. I do not think it will be surprising if we eventually find political forces here drawn up on a new alignment, with a party standing on a platform which might be made up from principles taken from the programmes of socialist parties of Europe, and opposed to those who will stand for conservatism and the permanence of present institutions and conditions.

What a socialist party they would make! The discontented would find promise in such a platform. The believers in the power of legislation to work miracles in bringing prosperity and bettering social conditions would find plans for legislative experiments which would interest them. Those who see danger in aggregated wealth, the opponents of trusts and combinations, the populists, would all find such a party congenial. The advocates of Federal control of railways and telegraphs, and those who think the Gov-

ernment should get deeper into finance and organize postal savings-banks, would find planks which met their views. One of the main tenets of faith would of course be the belief in universal old-age pensions and in insurance to compensate for loss of health or employment, with the taxes for creating such funds laid on the incomes of the wealthy. Such a plank would have wide popularity, and those who are dissatisfied and who are in favor of any change or of any new legislative experiment would be attracted. We certainly have just the sort of material here in plenty for the building of a socialist party along lines which are showing such vital force in the political life of Europe. And as in Europe, there would be much good in the programme, and much error, many fallacies for the demagogue to rant over, much that would be utterly impracticable, but much that would appeal to those whose lot is less favorable than they believe it should be.

There are no influences more likely to bring change to Europe than are those various political currents which are combined under the rather loose term socialism. I believe there are beginning to be seen in our own political life many similar currents. It is natural that those currents will eventually come together into a united political party.

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Such a party might be called "Socialist," or it might find some other name, but it would be a party with many of the same principles as those of the socialist parties of Europe.

If we are facing socialism here, some study of the progress of socialism in Europe is well worth our while.

In France, the clerical question absorbing the main energies of all parties for several years, as it has, is second only in political importance to the problems which the growth of socialism has there brought into prominence. The position of the Socialists in influencing public affairs is much strengthened by the fact that they have been essential allies of the Republicans in their struggle with the Church. As has been indicated in a former paper,¹ the Socialists have presented a solid front with the Republicans in the whole programme of Republican defence, and now that a decisive defeat has been dealt the Clerical party, the Socialists are demanding support in turn from the Republicans. The position of the Republicans makes the support of the Socialists necessary to them, and it is logical to expect that the Government programme will in greater and greater degree recognize Socialist demands.

The French Premier, M. Combes, has re-

¹ Page 340.

cently stated the main objects of the present French ministry, and the programme as he outlined it shows the influence of the Socialists. He has stated that in addition to the continuance of repressive measures against religious orders, the ministry proposes to pass laws on the subject of workmen's pensions, adopt a comprehensive plan for the assistance of invalids and old people, reform the tax system, and reduce to two years the time of military service. This programme indicates how important the Premier recognizes it to be that the Socialists continue their support of the Government. As the Socialists and Socialist Radicals have 140 members in the Chamber of Deputies, compared with 240 Republicans, it can be readily seen what important pillars of the Government support they form. The Socialist group, composed, as it is, almost exclusively of the working class, naturally has ambitions that are by no means confined to the programme of Republican defence. They want legislation which in their opinion will have an important bearing on the whole social order.

Like Socialists everywhere, they demand much that is utterly impractical. The Government has accepted a few of their most workable theories. If the platform of the revolutionary Socialists was carried out

there would be a complete upsetting of the Government, for they favor the suppression of the Senate and the President of the republic. The programme of the less extreme, and more truly representative, group of Socialists calls for laws restricting the hours of labor and affecting conditions of employment. They desire to transplant the German system of sick funds and old-age pensions, and lay the burden of their maintenance upon the State. This great charge upon the budget they are ready to provide without hardship to themselves by the imposition of a graduated income tax on the wealthy. Complete freedom in forming associations is desired, laws more favorable to labor unions are wanted, payment to the holders of elective offices advocated, and the control by the state of the railroads, mines, and banks is also proposed. The Socialists are almost as much opposed to state education as they have been to clerical instruction.

The Socialists' contention that the rich are getting richer and the poor are getting poorer was pretty effectually disproved recently by the investigation of the French Labor Bureau covering labor conditions in France from 1840 to the end of the century. During a period in which the population grew only 12 per cent, the consumption of wheat rose 60 per cent, of meat 90 per cent,

potatoes 100 per cent, sugar 500 per cent, and alcohol 260 per cent.

The demands of the Socialists seem likely now to come into the foreground. It is probable that we shall see in France much parliamentary attention given to legislation having for its object the amelioration of the condition of the working people. That fact is by no means without significance in a survey of commercial conditions in France. The questions that promise to take a leading position in legislative consideration will involve material change in the relations of the working classes to their employers, and may threaten marked alteration of the ratio in which profits are divided between capital and labor. Considering the strength and vitality of French socialism, the future would seem to favor legislation of a character likely to affect unfavorably industrial enterprise, at least until a process of readjustment has been gone through. French commerce is therefore facing unpleasant legislative possibilities in the way of income taxes, old-age pensions, restrictions of the hours of work, and legislation favoring labor organizations.

The adoption of a scheme for old-age pensions and the imposition of an income tax are now earnestly favored by the ministry. The Finance Minister, M. Rouvier,

who has proved himself one of the most adroit and able men who ever held the Treasury portfolio, has formulated a scheme of taxation which would abolish the present somewhat intricate system, and replace it with two simple revenues — one a tax on income, and the other a tax on house rent. The Socialists condemn the Government scheme, declaring it not progressive enough. They demand a tax which shall almost entirely consume property when income reaches a high level.

The respect for property rights is generally so highly developed in France that it hardly seems probable that the Socialists, strong and growing though the party is, will be able to pass legislation of so radical a nature as they now propose. Should they make substantial progress with their income-tax scheme, French business interests will have more reason to concern themselves with politics in the next few years than has been the case for a long time past.

The Socialist party in France has none of the remarkable coherence which the Social Democrats of Germany exhibit. The most striking feature of the German Social-Democratic organization is its perfect unity. The individual subordinates his ideas to the main programme. The will of the party, as expressed by the majority, is absolute law.

The party discipline is the most perfect to be found in any political organization. The French Socialists, on the other hand, are constantly at variance. They frequently break up into warring groups. At present there are two groups of importance, and five or six subordinate ones. If there was prospect of the strength of the Revolutionary Socialists increasing until they were able to impress their views upon the Chamber, the outlook for French commerce and industry would be serious indeed.

The Revolutionary Socialists want no half-way business about their old-age pension system. They desire that the pension shall be large enough to insure the aged workingman living in comfort, and they do not want it to be put off until he has grown weary waiting for it. Not only do they want large pensions to begin before extreme old age is reached, but they are radically opposed to any contributions from the wages of the working people to replenish the pension fund. They want it all provided by the State. They would have the wealthy pay the pensions instead of making frugality a requisite, as in Germany.

The French Socialists show a tendency, however, to abandon the revolutionary ideas which have marked the programmes of their more radical groups. With the adoption of

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a sober and more practical programme they show growing strength. In national politics they have reached the dignity of representation in the Cabinet, as well as substantial power in the Chamber.

The chief practical success which French socialism has gained thus far, however, has been the acquisition of municipal power. Many of the larger cities of France are now controlled by Socialist councils. Before 1892 the Socialists had a majority in only one town council — in Saint Ouen — but since then they have succeeded in securing majorities in ten other important town councils, including such cities as Lille, Marseilles, and Calais. The municipal council of Paris has a Socialist group so important as strongly to influence its actions. In those towns where the Socialists have a majority they frequently pass radical measures for the benefit of the laboring classes, but those measures are always vetoed by the prefects, who have an absolute veto power. The prefects pronounce such legislation as outside the council's jurisdiction. In that way the power of the Socialists in municipal affairs is sharply limited. No matter how radical may be the voice of the municipal council, the action of that body is held in check by the centralized system of government which Napoleon planned. The municipal council

may have a majority of members with ever so revolutionary plans. The council is presided over by a prefect who represents the central Government, and wields a veto which will effectually check a tendency toward anything which the officials in Paris may regard as dangerous enactments.

In Belgium socialism is one of the strongest of the present political forces. It is natural to find in that country a fertile field in which to spread socialistic doctrines, for it is a country with a great industrial population and a comparatively small number who devote themselves to agriculture. The greatest energy is shown there in the systematic inculcation of socialistic ideas. Not only is there thorough organization in the cities, but the proselyting is pushed out into the agricultural districts. On Sundays in Belgium it is a common thing to see squads of bicycle riders passing along the country roads distributing socialistic literature to the peasants or waiting outside the doors of the little country churches to hand out their socialist tracts.

In the cities the strength of the socialists became so great that the railroad administration, which is in the hands of the Government, thought to help the industrial employers and increase the supply of workmen by organizing a series of workingmen's

trains. Greatly reduced fares were put in force on these trains, and they transported to the cities and to the industrial centres great numbers of workingmen who lived in the country and who had not yet taken up socialist ideas. The Government's expectation of making headway against the workingmen's combinations has not been realized. It has turned out that the new laborers thus brought to the cities have quickly taken up the doctrines and ideas of the dwellers in the towns, and the recent progress of the Socialist party has been mainly made among the inhabitants of those small villages. Among the peasants, those who are actually workers in the fields, little headway is made by the propaganda of the workingmen's party.

Socialism in Belgium has developed largely in the direction of co-operative enterprises. In that particular it has taken a firmer hold in that country than elsewhere. Co-operative evolution is already too far advanced for any opposition by the State to be effective. There are many huge co-operative organizations, and their energies are directed toward almost every phase of economic life. In the main they may be said to be successful; certainly they are far more successful than any attempts at co-operation which we have seen in America. Without doubt their

influence is beneficent. Most of the great co-operative associations have their own libraries, devoted particularly to economic and social science. In the Vooruit, at Ghent, I have seen a collection of many thousand volumes devoted to these two subjects.

There are nearly two thousand co-operative societies in Belgium, with a million consumers. Fully one-seventh of the total population belong to these institutions. They are flourishing institutions, too, showing good management and important economic results. The Maison du Peuple, in Brussels, is one of the most important of these co-operative organizations. It is a sort of people's palace; it contains libraries, concert halls, theatre, and lecture-rooms, as well as the co-operative stores for furnishing every kind and variety of supplies. There are attached to the institution doctors, dentists, and oculists. It covers practically every department of life, and is more comprehensive than the greatest of our own department stores. Some of these institutions administer life-insurance funds and sick benefits with success.

All the members of the workmen's party are members of some co-operative organization, so that the co-operative and the political movements have gone hand in hand. In the small villages the first co-operative

establishment is generally a bakery, and this becomes the nucleus of a large co-operative industrial company later. There is successful co-operation, too, in the purely agricultural communities, in the form of associations for buying supplies and for selling the produce of the farms. The farmers believe that a central control over the marketing of their products has greatly increased their income. It has tended to eliminate unnecessary competition and to better adapt the supply to the demand.

The Socialist party in Belgium now has over five hundred thousand votes, and, considering its relations to the co-operative establishments, probably controls a larger amount of capital than any other political party. Its struggle and agitation for universal suffrage has been its most important undertaking. Dangerous weapons were used. I can imagine few graver prospects than the possibility of the introduction of similar methods of warfare into our political life. As a climax in the effort to obtain universal suffrage, there was an attempt made to bring about a universal strike in every industry, with the hope that there would be such complete paralysis of the nation's industrial life that the Government would be compelled to yield. The attempt was a failure, but the method was a most

dangerous precedent. The strike will be remembered as probably the greatest one on record. More than 300,000 workingmen were idle. Nearly every industry in the country, with the exception of the railroads, post-offices, and telegraph lines, was affected. The strike was marked by comparatively little disorder. In spite of the imposing manifestation on the part of the people, the Government succeeded in maintaining its majority, and the Chamber, by a majority of 20, refused to consider the question of revising the constitution in favor of universal suffrage. The election which followed strengthened slightly the workingmen's party, but also strengthened the Clericals, who are at present the controlling force back of the ministry. The Chamber is made up of 166 members. The Clericals now have 96, the Socialists 35, and the Liberals 34.

The union of political and labor organizations is seen in the highest development in Belgium, and the result of that union, with its possibility of strictly class legislation, may well be to us an interesting field of observation. As yet it has not seriously affected industry, nor threatened existing forms of government, but if the great industrial population of Belgium is eventually united into a political organization of sufficient strength to take the control of the

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Government out of the hands of the Clericals, Belgium is likely to become the scene of extremely interesting socialistic legislation.

A phase of socialism which is especially emphasized in Belgium is the attitude of the party toward art, and the plans for providing culture and amusement for the people, in answer to a demand for public entertainments and for great spectacles. In a state in which they hope to abolish the Church and the army, they propose to have something to substitute for churchly pomp and military pageant. They expect to do this by parades and celebrations of one kind and another, and even now they work out the details of these in a most artistic and thorough way, modelling them largely on the magnificent festivals of the Belgium cities in the Middle Ages. A harvest festival which I recently saw in Bruges was an elaborate and artistic example. A procession with floats representing different grains and different phases of the harvest certainly made in the way of public amusement a good substitute for a spectacle on the Champs de Mars.

The Belgian Socialists ask of the Government that so far as possible it cultivate the artistic in all phases of public life, and that the strength of the State be directed to ob-

literate all ugly and unpleasant sights. Of the Minister of Finance is demanded money of more artistic appearance, modelled closely on the lines of antique coins. From the Minister of Railroads they wish stations of architectural excellence, decorated by the greatest of contemporary artists, and railway carriages where comfort is combined with the consideration of what is beautiful. They even ask for less commonplace railroad tickets. From the Minister of Agriculture are demanded comprehensive plans for the preservation of the trees along the great national roads; and from the Minister of Industry, the reorganization, improvement, and vitalizing of the provincial schools for teaching industrial art, the creation of museums and galleries, and generally the provision of the means for higher artistic culture.

Thus the Belgium Socialists by no means propose to confine their ambitions to the improvement of material conditions. In some respects they may have impractical ideals, but on the whole their programme is one which must inevitably work toward the uplifting and better living of the dense industrial population. Undoubtedly they scatter and weaken their force by the breadth of their demands. Their programme, however, is interesting, both from the fact that

it illustrates the nature of what we would regard as fundamental political rights for which they are still struggling, and illuminates some of the high ideals with which the party is imbued.

In politics they desire universal suffrage, decentralization of the legislative power, communal autonomy, the right of initiative and referendum, educational reform, the suppression of the Church and army, civil equality of the sexes and suppression of hereditary functions, and finally the establishment of a republic. In economic matters they have a great programme of public charity in the shape of general insurance for all citizens. They favor the abolition of all laws against coalition. They desire free agricultural education, insurance against the diseases of plants and animals, and against the damages of storms and floods, the suppression of the hunting preserves, and the establishment of the right to destroy during every season animals which do harm to the crops.

In the Belgium elections all the influence of the priests and of the owners of land is exercised against the Socialists. The credulity of the country folk leads them to accept from priests some remarkable interpretations of socialistic aims, and a common conservatism in the country results in advanced

ideas taking root very slowly. The workmen's party in Belgium strongly favors woman's suffrage. The organization of Belgium women into unions of political societies has not, however, made much progress.

In Austria, where the conditions of suffrage are unfavorable to Socialists, they have returned only 11 members to the Reichsrat. Although the party shows a total strength of nearly 1,000,000 votes, the class system of voting gives it small representation. The recognized party organization has expelled the extreme revolutionists, and has taken up the interests of the peasantry. As a natural sequence the party has become anti-Semitic, as the Jews are the great landowners of the country. It has been said that two Jews own a quarter of the agricultural land of Hungary, a statement which is hardly within the facts. The Rothschilds are said to own one-third of the farming land of Bohemia, which is perhaps another exaggeration. But in any event such accumulation of enormous tracts of land has led the Socialist party to take a strong anti-Semitic position. The agrarian interests are naturally violently opposed to the Socialist doctrines. They have secured legislation authorizing employers to dismiss without wages any workingman suspected of being

a Socialist agitator, and are not above seeking any unfair advantage in combating what they regard as a national danger.

Socialism is an unimportant element in the politics of Holland, although so far as it does manifest itself it is revolutionary in character. In recent municipal elections the Socialists met with losses. They have practically no influence in national politics there.

In Sweden there is only one Socialist member of Parliament, and in Switzerland there is also one. Although socialism has shown no vitality in the Scandinavian countries, there has been a great development of co-operative enterprise there. This is true particularly of Denmark's dairy interests. The first of the Danish co-operative dairies was started about a score of years ago. They have been so well managed and produced such satisfactory results, that four-fifths of the dairy interests of the country are now handled by co-operative organizations, and the exports of Danish butter have grown in value from \$5,000,000 to more than \$30,000,000. Co-operative organization has been extended with great success to other agricultural interests. There are co-operative meat-packing concerns with 65,000 members that have shown good results. Success has also attended the handling of poultry and other farm produce. The

great development of Denmark's export trade in agricultural produce and the exceptional favor and high prices those products command in the English markets are held to be in large measure an indication of the advantages of co-operation.

Italian Socialists show considerable political vitality, and the revolutionary phase is emphasized there. The party demands universal suffrage for adults of both sexes; greater freedom of organization, of public meetings, and of combination; religious equality; a national militia in place of the standing army; neutrality of the government in disputes between capital and labor; a more humane penal code; the nationalization of railroads and mines; effective compulsory education; old-age pensions; the establishment of a ministry of labor, and the payment of deputies and members of local councils. The Italian Socialists have shown a pretty steady growth in the last decade. Their programme in the main is such that ordinarily progressive government and a fair measure of political rights would satisfy most of the demands of the party.

In England there are but two Socialist members of Parliament, and one of them, John Burns, is hardly considered a Socialist by the members of the party. In spite

of that there is to be found in England an impressive manifestation of socialistic tendencies. Its development is in connection with the municipal ownership of public utilities. What is called "gas and water socialism" has generally been the beginning of these municipal enterprises. There are some successes and a great many failures. In England human nature is not greatly different from human nature as found elsewhere, and municipal counsellors are, as a usual thing, demonstrated to be none too well fitted for the conduct of the huge industrial enterprises which many of the municipalities have undertaken. There has been an astonishing increase in municipal indebtedness following in the wake of these industrial undertakings. The municipal expenditures for industrial undertakings have resulted in the raising of the tax rate to such a point as to cause a wholesale exodus of tax-payers from some municipal districts.

The labor vote in England frequently unites solidly in favor of its candidates for municipal office, and sometimes with curious results. Two labor leaders were recently elected to the town council of Battersea, for example, and shortly after their election, having used their political influence to secure jobs as street-sweepers at 27

shillings a week, they resigned their political office.

More or less important as is the Socialist movement in those countries already referred to, it is in Germany that we find it developed to a commanding political position. It is, perhaps, hardly fair to call the Social-Democratic party of Germany as it now exists strictly a party of Socialists, for there are many members of it who elsewhere would be known as Liberals. It is true the platform of the Social-Democratic party was originally the communistic manifestos of Carl Marx and Frederick Engels, and at first the party held that the emancipation of labor demanded the transfer of raw material to the common possession of society, and that only the best results and the just distribution of the products of labor could be obtained by the communistic regulation of collective labor. Thirty years ago, under the direction of Liebknecht and Bebel, the party united to itself the labor unions and organizations of various sorts, and became a party of political importance. The growth of the Social Democrats in Germany has been coincident with the growth of industrialism. It is the party of labor and of protest. Its most violent opponents are the agrarians, whose lands have been stripped of cheap laborers

by the development of industrialism in the cities. The party has thrived under persecution. It steadily gained votes in the face of the most antagonistic laws which the Junkers could devise with Bismarck's aid, and the most harassing police espionage which the bureaucratic system of Government has made possible.

In the last German election nearly one-third of the 9,500,000 votes were polled for the Social-Democratic candidates. The result of that election shows a loss of nearly 30 per cent by the agrarian groups, and a gain of 43 per cent by the Social Democrats. It was the sort of thing that we call, in our politics, a landslide. Every session of the Reichstag for eighteen years, however, has shown an increasing number of seats occupied by the Social Democrats, so that the great gains of the last election did not indicate a turning over of public sentiment. It rather represented a culmination of those influences which have been adding strength to the Social-Democratic party ever since the first session of the Reichstag in 1871, when only one Social Democrat sat on the extreme left.

The Social Democrats now poll a majority of votes in nearly every capital city, every great mercantile marine port, and in all the great industrial centres. They are

handicapped by unfair representation. If the true expression of the will of the German people were reflected in the Reichstag the Social Democrats would be in a commanding position there.

In studying German politics, however, it must be borne in mind that the ministry is not responsible to the Reichstag, but only to the Emperor. No cabinet resignations or dissolution of Parliament follows a vote unfavorable to the Government. The Reichstag has little more than a veto power, and the people are hampered in the expression of even that veto privilege by the greatest inequalities in the electoral divisions of the empire. The election law originally provided that there should be one member of the Reichstag for, generally speaking, every 100,000 inhabitants, but did not provide for fair readjustment in case of increasing or shifting population. Since that law was passed, the population has increased from 40,000,000 to 58,000,000, but there has been no rearrangement of electoral divisions. There is one member of the Reichstag who represents 183,076 votes, and another who represents only 9,551.

The increase in population has been in the cities, and it is from the cities that the Social Democrats draw their main strength. The unfairness and inequality of the present

electoral arrangement, therefore, falls with greatest force upon the Social Democrats, and reacts to the greatest advantage of the agrarians and Clericals. Those groups, forming, as they do, the Government majority, and being the beneficiaries of the present inequalities in the electoral distribution, are unwilling to concede the slightest change. They dread the ascendancy of the Social Democrats as some great national calamity, and they offer their fears as their excuse for manifest unfairness.

Although the Social Democrats polled 3,010,000 votes, or 32 per cent of the total, they have only 81 seats in the Reichstag, which is composed of 397 members. The Centre, with a popular vote of 1,850,000, has 100 seats in the Reichstag. If there had been fair representation and an equal distribution of political rights the Social Democrats would have 125 members and would have been the strongest group in the Chamber. Berlin has 6 members of the Reichstag, but on a fair plan of distribution would have 20.

The unfairness of the electoral distribution in the empire is even more marked in some of the states of which the empire is formed. In the Prussian Diet there is, for example, not only the same inequalities in the size of the constituencies, but there is a

unique plutocratic system of voting by class according to the amount of taxes paid. The city of Berlin now has 9 members in the Diet, but would have, on an equitable basis of population, 25. The system of voting by classes is peculiar, and must strike those of us who love political equality as most unfortunate. The system is this: In each election precinct the voters are divided into three equal classes, on a basis of the amount of taxes paid. These electors form a little electoral college, choosing the member or members of the Diet. Here is a specific illustration of how this system works out: In a certain district of Berlin, which includes a part of the Wilhelmstrasse, the first class has in it 3 voters, the second class 8, and the third class 294. The ballots of the three voters in the first class thus have the same political weight as the ballots of the 294 in the third class, because the first class pays the same amount of taxes as the third class. But the particularly amusing feature here is that this third class of 294 includes Count von Bülow and other Cabinet ministers, and many high Government officials.

Under this system there is not only inequality of political rights within a district, based on the tax contribution of the voter, but it results in most absurd inequality in the political rights of one district as against

another. In some districts of Berlin, for instance, a man must pay 150,000 marks in taxes in order to vote in the first class; in other districts a payment of taxes to the amount of 36 marks puts the voter into the first class. Bismarck called the Prussian method "the most miserable of all electoral systems," but the Government shows no growing disposition to change it. Herr von Hammerstein recently said, "No other electoral system gives such a correct impression of public opinion as our tripartite system in Prussia."

What is it that caused such remarkable growth of the Social-Democratic party? What are the complaints of the German people? What measures do the Social Democrats purpose? Does this party of protest and discontent, growing as it has the most rapidly of any political party in Europe, foreshadow changes which will have a momentous effect on industrial conditions? Those are all questions, the answers to which seem to me of direct interest to us.

The point of view of the Social Democrats, without doubt, rests in large measure on a sound appreciation of economic facts. They have seen at close range the effect of modern economic development. They have noted the substitution of machinery for hand labor and the stifling of small industries by

great and more efficient industrial combinations. They offer no plan to oppose such development. They recognize that it is in the line of economic evolution. But they are convinced that it has deprived, and will continue to deprive in an increasing degree, the individual worker of the means of independent production. The result, they believe, is the creation of a new social order, and there must in time be a readjustment of economic conditions to meet the change. There is no disposition violently to overthrow existing conditions.

A natural deduction from the growth of the Social-Democratic party might be that such growth indicates a tendency toward revolution, and that with increasing power and confidence it may become a movement to overthrow the Government. Probably nothing could be further from the future course of events.

The principles for which the Social Democrats stand are the sort that naturally thrive in the German character. The German is supercritical. He delights in national fault-finding. He takes naturally and kindly to a party of opposition. He is devoted to speculative philosophy, and the dreams of the classical socialist writers appeal to him. His phrenological bump of the ideal is highly developed, and political ideals that

would in other countries be regarded as impractical dreams are in Germany the sort of thing around which a party can be built, and a party, too, which will submit to the most rigid and practical party discipline — the sort of discipline that every German has learned to know the value of in his army training.

Not alone is the German character the sort which would encourage the growth of socialism, but German political conditions, which were inherent in the varied political development of those countries which were forged together into the German Empire, have been such as must inevitably have united into a party of opposition men who had ideals of true liberty. The German states were securely bound together when the empire was agreed to, but they were not amalgamated. They remained states whose political development covered the whole range from actual feudalism to those republican cities with well-developed constitutional government. Even in dominating Prussia constitutionalism was only skin deep; the real government was junkerism and militarism. The Junkers are slow to give up their traditions of feudal authority. Their deep-seated conviction to-day is that they should rule by authority not by majority. There is many a Junker aristocrat

who believes as devoutly in his divine right to stand in a position of authority toward his humbler, though perhaps wealthier fellow citizens, as does the Emperor himself.

Few nations have had a more trying task than Germany has had in disentangling the confused political rights as found in the governmental institutions of the various states, in reducing to proper proportions the dual powers of state diets and Imperial Reichstag. Popular representation at first had little meaning. Part of the work which the Socialists set out to do was to develop it. Tangible form was to be given to those constitutional provisions defining the rights of the people, and a party with something more than Junker agrarianism or clerical conservatism in its programme was needed. The Social Democrats took that as their work. The development of true liberty demanded the abolishing of caste and the undermining of class privileges. Nothing could be more to the taste of those men who directed the Socialist movement. The Socialists believe that the political task which they have to accomplish is the development of a living constitution and the impression of modern ideas of freedom on Government and Reichstag.

They have grown to be a party with over three million votes, but they feel they have

as yet accomplished small part of their work. They have seen the empire become a great political and commercial power, but there has been little progress toward individual freedom and equality. They declare that constitutional government, as found in Germany, is a semblance and a pretence, not a reality, and they are largely right. The Reichstag is not truly representative, and if it were it would still be without authority. The Emperor, the army, the aristocrats, the bureaucracy, and the police govern Germany. The vote of a citizen has less direct influence than in any other country with a constitutional government.

The power of the police is especially obnoxious to the German Socialists. It is true that the police do interfere in about every relation of life, and while from one point of view the result is the most orderly government in the world, there is ample ground for irritation at the nature of the espionage. Nowhere else, not even in Russia, do the police so completely constitute themselves the guardians of the public. There is complaint, too, against the tendency to give the widest possible interpretation to the penal code, to make every conceivable action liable to punishment, to restrict the freedom of meetings, of public speech, and of the press, and to invoke the

laws of lese-majesty in a way that is regarded as barbarous and intolerable.

So much for the general grounds upon which may stand a party of protest. There is one specific grievance, however, which has had more influence in building up the Social-Democratic party than almost all other factors together. The question of dear food or cheap food makes an issue that is easily comprehended. The natural political enemies of the Socialists, the Junkers, want nothing in politics more than high protective duties on agricultural produce, for that is all there is between the agrarians and ruinous competition with the fields of America. The industrial population, of course, wants cheap food, and so the issue is clearly drawn. Their war-cry is the epithet of "bread usurer." Their arguments, from the industrial point of view alone, are unanswerable. Germany has the dearest meats and dearest wheat of any country in the world. Converts are plentiful when a campaign is made to centre about the easily understood phrase of cheap food.

It is natural to find the Socialists opposed to the great expenditures on army and navy. They are not so much opposed to the army as to the vast sums which the Kaiser pours into the building of a navy. They know that the navy is built from customs dues.

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They know that the taxes on cereals and coffee provide almost half of the customs receipts, and they feel that the Government unjustly taxes the necessities of life in such a way that the poor contribute to the defence of the country practically as much per man as do the well-to-do and the rich. The new tariff, raising the duty on wheat and rye from 33 to 55 marks, has not softened their bitterness. If this new customs law comes fully into force, they believe they will lose as much in that single blow as they gained by the passing of all the old-age pension laws which they secured after years of struggle. The Socialists' complaint against the army is not directed toward military service, but against the system under which the army is officered only by aristocrats, and remains the least democratic of all German institutions, although every German gives part of his life to it.

Here is the programme of the German Socialists as formulated by the more moderate members of the party. They pronounce for the maintenance of constitutional guarantees, and would give real form and substance to the constitutional rights of the individual. They aim at the establishment of a sound financial system, with a view to free and unfettered economical development

and the free interchange of commodities between nations. They desire the maintenance of peace, a just system of parliamentary representation and responsibility of the Ministers to the Reichstag, a fair division of the burdens of taxation by means of a progressive income tax, the making of proper commercial treaties, the administration of justice in criminal courts in a more humane spirit, reduction in the period of military service, and the limitation of military expenditure. All this does not seem very revolutionary in character, nor likely to result in serious harm to the German nation.

The Social Democracy has been wonderfully fortunate in the devotion and pure motives of its leaders. One sometimes hears the influence of August Bebel likened to that of the Pope in the extent to which he requires and wins the fidelity and obedience of radical elements noted in other countries for diversity of views and for restlessness under restraint. This great man ought not to be judged alone by his utterances in public speeches. He has an oratorical passion that sometimes goes far beyond his generally cool judgment and moderate views. Herr Bebel even in the opinion of the court is, I believe, first a lover of Germany, and second an implacable enemy of privilege and hum-

bug. He has a vast talent for organization and for the selection and phrasing of issues. The millions of the poor behind him believe, and doubtless, justly, that his courage and discriminating devotion to them is without bounds.

One thing especially stands out in regard to the German Socialist party, and that is its absolute unity. The discipline of the party is magnificent. A most striking example of this was the way in which Bernstein accepted the vote directed against him by the majority of the general Congress of Lübeck, and declared himself to be willing to follow, under all circumstances, the wishes of the majority of the party. Shortly after this, Bernstein was chosen by the Socialists as their candidate for election from a certain district to the Reichstag, whereupon the entire party in that district, including some of those who had been most violently opposed to him in the Congress, voted loyally for him and secured his election.

There have only been two cases in twenty-seven years where there has been such a split in the Socialist party of any district that they have put up two candidates for the same election.

The decisions of the general congress of the party are final, but the delegates have been careful to limit these decisions chiefly

to matters of principle. Local organizations in the different states have a great deal of freedom in regard to deciding their own questions.

During the last seven or eight years the co-operative movement and the movement for the formation of workmen's syndicates have grown rapidly in Germany, and have made great headway among the Socialists themselves. It is the same active working class that composes the Socialist party, the Syndicates, and the Workmen's Co-operative Societies, and these organizations will be of the greatest help to the Socialists in their future conflicts.

Although the Social Democrats form the party of the workingmen, they do not select workingmen as their representatives in the Reichstag. More than half of the representatives of that party are editors, and practically none are actually industrial workers.

There is a phase of human nature which one encounters in Germany which has a marked influence upon political development there. It is "unfashionable" to be out of accord with the Government policy. In England a man may be a "Free Trader" or a "Protectionist," a "Little Englander" or a dreamer of imperialistic dreams, without affecting his social status one way or another. In France the whole business of

politics is rather outside the highest social life and society concerns itself little with the shades of a man's political opinion. But in Germany all that is different. It is distinctly unfashionable, in the view of the best society, to hold opinions antagonistic to the Government, and the weight of that fact is tremendous in the shaping of men's opinions. The young man of good family who finds that with the adoption of radical political ideas he meets with distinct coolness in the homes of his friends, that his name is dropped from dinner lists, and his social acquaintances regard him with disfavor, needs a great deal of courage to pursue that line of thought. The power of social opinion, as represented in aristocratic society, is perhaps nowhere more potent in political matters than in Berlin.

The tremendous increase in the vote of the Social Democrats in Germany, while it has failed to give to that party anything like a proportionate representation in the Reichstag, has nevertheless had marked influence on legislative action. On the part of all the other parties there appears to be a wholesome fear of the increasing power of the Socialists, and they are ready to adopt, not only any unfair means that they may devise to compass the Socialists' defeat, but they are quite ready to make concessions and attempt

to placate the dissatisfied workman. No other country has gone so far as Germany in legislating in the interests of the working class. The system of old-age pensions is the most notable example of such legislation. By Bismarck's own admission, the measure was designed to take the wind out of the sails of socialism. It was believed that the interest which every workman would be given in the Government through a prospective pension would furnish the motive for securing the support of the working classes for the Government side. The ill success of the scheme from that standpoint is apparent. Nevertheless, the direst foes of socialism, after the great victory of the Social Democrats in the last election, called for further labor reform legislation as an antidote against the spirit of socialism.

In the Reichstag there has been a flood of enactments for the benefit of the laboring classes, and the consideration of suggestions along this line has occupied much of the time of members. Labor legislation has been popular with all parties. With the Socialists, naturally, because it was labor legislation which they particularly demanded, and with the other parties because they thought by championing the cause of labor they could overcome the disaffection of workingmen in their ranks. In the

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recent budget debates, an astonishing amount of time was given to petty questions regarding the wages of workmen in certain Government shops, their hours of work, and the regulations controlling their employment.

There is every reason to believe that legislation favoring the working classes will continue to be enacted by the Reichstag. Soon after the opening of the last session, Count von Bülow announced that the Government hoped eventually to bring forward a scheme of insurance for widows and orphans, at the public expense, and it was also intimated that some plan for insuring workmen against non-employment was under consideration as a probability within the next ten years. Thus, the State, as an antidote to socialism, adopts measure after measure of a distinctly socialistic character.

An idea of the activity in turning out social reform laws can be gained by enumerating some of the recent legislation of this kind. In 1899 the system of old-age pensions was revised and extended, and the rate of pension payments was increased; then the law on accident insurance was amended and improved. In 1902 a law defining the rights of seamen was thoroughly overhauled and brought into harmony with the spirit of modern labor reform

views in Germany. A revision of the sick-insurance law was made last year. Laws regulating the relations between tradesmen and their employees have been passed, making specific provisions regarding the hours of closing, number of hours for work, and daily intermission for meals. A resolution has been passed asking for a bill similarly to protect the employees of lawyers, notaries, and bailiffs. There have also been many laws passed regulating the hours of employment in all manner of industries.

The German Government is pleased to busy itself in passing many laws for the benefit of the working population, but it never fails to assume the position of having conferred favors rather than of having granted rights that intrinsically belonged to the class which the legislation concerns. In such legislation the Government always assumes the position of the giver of benefits to inferior beings. All this is apparent from the attitude of the different ministers toward the lower Government officials and employees, who are domineered over in an astonishing way. The right of organization by minor Government employees is severely frowned upon, and the harshest means are used to prevent it. If the political footsteps of the Government employee stray into the path of Social Democracy, they are quick to en-

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counter serious obstacles. Count von Bülow has enunciated the principle that no Government employee can be a Socialist and every under official adopts that view.

The Government looks with scant favor on any sort of labor organization and steadfastly refuses to enact a law to permit labor unions to affiliate with each other in joint associations. That has long been one of the points of Socialist demand, and it is a permission strongly desired by the working classes generally. Last year a great congress of union socialistic workmen was held at Frankfort-on-the-Main. That congress represented 600,000 members, and it declared the solidarity of those members with the Socialists in respect to the demand for permission to affiliate the labor unions. Various resolutions have been passed in the Reichstag in favor of this extension of liberty to the workmen, but these resolutions have availed nothing. A delegation from the Frankfort congress presented their views in a petition to Count von Bülow, who promised to "take it into benevolent consideration."

There is a class of politicians in Germany, members of the two conservative parties and the National Labor party, who are called in the political jargon of the day the "Scharfmacher." They are men who

want sharp, repressive measures against labor agitators, strikers, and particularly against Socialists. They are the stalwarts, the men of firm hand and implicit belief in relentless governmental authority. The "Scharfmacher" defend the excessively vigorous discipline in the army, and they approve of the action of the courts in their frequent punishment of lese-majesty.

The Socialist movement is thus seen to be a live political force in Germany, Belgium, France, Italy, and Austria, while in England, although it holds no position in national politics, it has accomplished more in the direction of municipal activities than has been done elsewhere. The general tendency is toward moderation. The revolutionary Socialists are everywhere in the minority in their party, and the tendency is further to reduce their influence. In general, the whole Socialist movement is becoming more opportunist, there is a growing disposition to be more practical, to endeavor to obtain such concessions as they can, and not hold out too strongly for the adoption of an entire programme and a general overturning of the present social order. The theoretical and academic socialism is giving way in some measure to a socialism which takes note of practical politics.

Beyond all question, many of the things

which the Socialists are striving for are economically sound, ethically just, and politically desirable. They are fighting class privilege and the traditions of caste; they are struggling for a fairer franchise and more truly representative government. They are everywhere the party which upholds the rights of the weak, and more earnestly than any other party they seek to secure to every citizen political equality and individual liberty.

With such objects and aims, there is no wonder that the movement grows. But all that is not socialism; it is only liberalism at its best. Unfortunately, the Socialist parties are not made up altogether of moderate and fair liberals. While it is true that some of their demands will, when secured, mean that Europe has taken steps toward distinctly better government, those moderate and sensible measures form only part of their programmes. Other phases of their demands represent the spirit of unrest, of dissatisfaction with existing conditions, of class envy, of faith in those fallacies which lead men to believe that they can substitute legislation for thrift and industry, that a comfortable old age is a right to be demanded wholly from the State and without any contribution of economy and present sacrifice from the individual.

The whole Socialist movement is largely a class movement; it draws a line between property and poverty, and is constantly running the danger of listening to demagogue leaders who appeal to envy and passion, and under a guise of justice and equality propose measures that are unjust and inequitable. It is antagonistic to religion, not only contesting the power of the Church but openly avowing atheistic views. The movement has in it the promise of good and the danger of evil. The good is pretty certain to be accomplished, for in the end it will appeal to the fair-minded of all parties; the evil may be great or small in proportion to the fairness of the Socialists' opponents. All European government is certain to make ultimate progress toward an equality of rights for all citizens. If the conservatives, the agrarians, and the clericals raise in the way of that progress obstacles which will not give way, they may call into play some of the high explosives that are to be found in the programmes of the revolutionary branches of the Socialist parties. On the whole, however, I doubt if the Socialist movement is likely to do much permanent political harm to Europe, while it already has done and will continue to do considerable good.

It has seemed worth while going some-

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what fully into the Socialist movement, because the Socialist parties of Europe present about the only political tendencies toward change which there are there. They are opposed by parties of reaction or parties anxious to maintain the *status quo*. The success of the Socialist parties will in the main, for the present at least, mean the success of liberalism. Such success will not be likely to affect greatly commercial relations between Europe and America. Success in some of their endeavors will undoubtedly tend to raise the cost of production in Europe, but such tendency would probably be counteracted by the greater industrial efficiency which improved social conditions would bring.

One of the most striking differences between Europe and America is the persistence of racial type there and here the tendency to amalgamate all races into the American. Time seems to bring only increased bitterness to racial antagonisms in Europe, while with us the third generation, at the outside, is completely merged into the American type. I never have been able to understand just what it is that keeps the rancor of races at such a virulent pitch among near neighbors in Europe, when those same races will here renounce language, flag, and racial aspirations, and joy-

fully and completely merge into the American — all patriotic, all loyal to the Government, all in a generation more anxious to cover every trace of foreign characteristics with the mantle of sovereign American citizenship than they are to perpetuate a single one of those racial prejudices which for generations made enemies of their fathers.

In the case of races that are living side by side, that are occupied with the same general problems of life, and that would enjoy the same measure of benefit or endure the same degree of hardship as legislation is economically good or bad, one would suppose that time would soften the asperities of racial dislikes. In Europe it is not so. There are some nine races in Austria, for example, and the most beneficent piece of legislation that could be devised for the benefit of the whole country would be coldly received compared with the delight with which eight of these races might for a moment unite to bring discomfort to the ninth. They never unite for the common good — it is only that they may at the moment feel a common hatred for some third race strong enough to bring them together in an attempt to harass the common enemy.

The economic importance of these racial antagonisms is enormous. With our homogeneous population it is hard for us to un-

derstand what a drag and a block an efficient government must follow when sentiment instead of sense must be appealed to in the legislative chambers. The government machinery of Hungary was practically paralyzed for a year because there was a deadlock over the question whether the army should march to the command of "Vorwärts, marsch!" or "Elöre, indulj!" whether the word of command should be in the Magyar tongue or in the German.

The language question in itself is of enormous importance, and there seems no tendency toward it becoming less so. The most earnest efforts are made to continue separate schools for all the varied tongues that confuse and make difficult the life of Europe. The persistence of each type of language is in itself of great economic moment, for it is a most difficult barrier against that free commercial intercourse — intercourse where there is mutual understanding and confidence — which does so much to permit the rapid expansion of trade. A Europe with one language and without the barrier of internal tariff walls, a Europe which offered such a field for the free and natural expansion of commerce as does the United States, would be a Europe whose economic force was so increased that no one could say how vast the gain would be.

The struggle between the two races in Bohemia — that is, between the Czechs and the Germans — is probably the most acute and typical example of the racial difficulties throughout Austria. There are in Bohemia 9,300,000 inhabitants, who are divided into 5,800,000 Czechs, 3,300,000 Germans, and 200,000 Poles. According to the budget of 1901, German Bohemia pays 250,542,000 crowns for taxes to the State; that is, 66 per cent of the total for Bohemia; but the State expends only 32,992,000 crowns in the German districts, while it expends 104,945,000 crowns in the Czech part of the country, which pays only 128,494,000 crowns of taxes. The figures are so juggled, both by the Germans and the Czechs, that it is almost impossible to get a fair estimate of the real number of each in the country, of the amount they pay in taxes, or of what they receive.

The Czechs say that the language struggle in Bohemia was provoked by the Germans, who placed over their shops and restaurants inscriptions such as "Forbidden to talk Czech" or "Entrance is Forbidden to Beggars, Dogs, and Czechs"; whereas the Germans say that although Prague is the capital of a bilingual country, the town councils do not allow German names to be used in the streets; and an amusing feature of the struggle is that the Slav Congress held in 1898 at

Prague was obliged to use German as the official language of debate, as it was the only tongue which all the delegates understood.

Throughout Austria the struggle between Czechs and Germans is particularly keen over the schools. Two rival school associations, one German and the other Czech, use every means in their power, the one to Germanize the Czech children, and the other to teach them the cult of the Czech language and nationality.

Austria-Hungary and the Balkan countries we recognize as the home of racial antagonisms. Such a great percentage of the political life there is absorbed in these controversies that commercial and social interests have but scant recognition. But we are not so apt to remember that in Germany one of the fundamental problems of government, and one of the most perplexing and important, has to do with the discontent of the fragments of the nationalities which are still unreconciled to the Imperial Government. These are the people of Alsace-Lorraine, the Danes of North Schleswig, the Hanoverians, and the Poles. In the conquered French provinces there has been some real headway in breaking down the old antipathies, but nowhere else is there much progress. The discontent along the Danish border is

gaining in importance, thriving on the unwise policy of the Prussian Government in guarding too zealously against all petty demonstrations of Danish sympathy. The Government acted with great harshness a few years ago in expelling Danish house servants, farm laborers, and other humble folk because they sang Danish songs, and in other simple ways proclaimed their Danish sentiments, and only recently the Minister of the Interior has implied threats that such expulsions may be resumed. The Hanoverians have never been reconciled to the union of the old kingdom of Hanover with Prussia, and the Guelph party still elects half a dozen members of the Reichstag. In the last session of the Diet, Herr von Hammerstein, the Prussian Minister of the Interior, declared that the Guelphs, next to the Socialists, were the element most dangerous to the existence of the State.

All these racial discontents are nothing, however, compared with the race problem in the Polish provinces. In the province of Posen, some parts of East Prussia, and in the mining districts of Silesia, the Government meets one of the most serious of all its difficulties, and one that seems to become more serious with time. The Poles have lately been growing more radical, and instead of working in political harmony with

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the Clerical party, as they once did, they have drawn political lines strictly in accordance with their racial aims, and have even put candidates in the field against their old allies, the Clericals, and that with occasional success. Even the Polish Socialists, unlike the Socialists elsewhere in Germany, show a strong disposition to pursue paths of their own, rather than act with the Social-Democratic organization.

The pacification of the Poles has called forth enormous effort from the Prussian Government, and astonishing expenditures, but all, apparently, to little purpose. The scheme in which the Prussian Government puts greatest faith, and for which it has made unstinted appropriations, has been the purchase of large estates in the Polish provinces for the purpose of dividing them into small holdings and settling Germans upon them, with the hope of thus Germanizing the country. Bismarck started the policy in 1866 with a fund of 100,000,000 marks; in 1898 that was increased to 200,000,000 marks, and in 1902, the appropriation being nearly exhausted, a further vote of 150,000,000 marks was made, with an additional grant of 100,000,000 marks for the purpose of acquiring Polish estates to be turned into state domains and forests. There has thus been an authorized expenditure of \$112,-

000,000, with results that leave the population to-day as antagonistic to the Government as it was when Bismarck conceived the scheme.

The Poles are by no means poor, and they met this policy of "pacification by Reichsmarks" with a private organization. A great Landbank, provided with ample capital, has been established with the purpose of undoing the work of the Government. The Landbank buys land from the thrifty German settlers and returns the native Poles to till it. The Settlement Commission, which has charge of the Government's scheme for settling Germans on these Polish lands, meets with the greatest difficulty in buying land from Poles, but on the other hand, it is forced to buy out every German holder who wishes to sell, else his land will again fall into Polish hands. The commission bought more than 100,000 acres of land last year, and only about 7,000 acres of that was acquired from Polish owners, while well over 90,000 acres were taken over at high prices from Germans who wanted to leave the country or wished to abandon the farm for the town.

The Government has settled about 50,000 Germans upon these Polish lands since the policy was inaugurated. This artificial competition for land which has been going

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on between the Government Settlement Commission and the Polish Landbanks has resulted in absurd advances in prices. For some years after the Settlement Commission began its operation, land was bought at an average of \$54 an acre. By 1902 the price had risen to \$87 per acre, and last year to \$111.

The two races have come to a deadlock in their relations with each other. Every year there is a great Polish debate in the Reichstag, but it only serves to bring out in bold relief the irreconcilable antagonism between German and Pole.

The significance of the language question is well understood by the European monarchs. In the Park Club in Budapest, the club of the Magyar aristocrats, which cannot be matched for artistic beauty of furnishing by any of the marble halls of our gaudy American clubs, there hang two portraits, and only two. One, of course, is that of the Emperor Franz Josef; the other is William II.

I asked how it happened that the German Emperor was so honored.

"He has had his second son taught the Magyar language," answered my host. "That boy may sometime wear the crown of the Magyar kings."

And there might be stranger things.

Russia has her full share of racial difficulties, and in her conflict with Poles, Finns, and Jews has been led into injustice and barbarity of the sort that makes two enemies of the Government where there was one before.

Comparisons of the problems which beset the European governments with the difficulties that are met with in our own institutions cannot help but make us better satisfied with American citizenship.

We find there implacable racial differences, varied degrees of political development which it is vainly sought to unite into harmonious empires, relics of feudal authority, hereditary distinctions, and class prerogative quite out of line with a modern conception of representative government. There are diametrically opposed interests of agriculture and industry which can never be reconciled. We see a drawing of class lines in political life, and appeals to the passions of envy and greed, and to the prejudices of caste and ignorance. It is startling to note what enormous factors in the situation are the personalities of half a dozen hereditary sovereigns, and what significance and possibilities lie in the mere chance readjustment of a crown. We see the growing strength of the parties of protest, the vitality of the Socialist movement,

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the difficulties of government finance, the weight of taxes, the load of the military and naval establishments, the menace of war, the ever-living danger in close national neighbors who misunderstand motives and lack sympathy for the trials and ambitions of the others — and then, when we turn to our own political situation, we see a nation greater in numbers and vastly greater in resources than any of the nations of Europe, with a single language, and with but a single problem of race, and with a common patriotism that every one knows is far above party differences. When the political conditions of Europe and America are so compared, the study can but make us thankful that we have such a sound foundation upon which to grow, and so few complications to interfere with our right development.

IV. GOVERNMENT EDUCATION

IN determining the relative efficiency of nations competing in the commercial and industrial fields, there are several factors of prime importance. The nature of the Government, the character of the people, the natural resources of the country, each have distinct influence. All government grows better, so there is a tendency toward equalization of advantages in this respect. Cheap-

ness of transportation tends to equalize the disadvantages of a lack of raw material. Hereditary, racial, and climatic influences are each important in determining the character of the people, and so far as character is influenced by these factors it changes slowly. The quickening influence that may bring rapid change in the national characteristics of a whole people, and that may become of immense importance to their industrial efficiency, is education.

In any study of the comparative industrial efficiency of nations some comprehension of the scope and tendency of their educational system is of the greatest importance. As industry becomes more and more highly organized and commerce more widespread and complex the influence of education is a factor of rapidly increasing importance.

The President of one of the great railway systems of the United States once expressed that fact to me in this way:

“As railway business in the United States is developing,” he said, “and as the organization of the business of transportation becomes more complete, there is working a distinct change in the character of the men required for the successful operation of our properties. While the railroad business was in something of a pioneer stage, men were

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required who had native force, who would quickly and successfully meet every form of obstacle. In the West particularly, we developed a corps of railway employees who for resourcefulness, vigor, and strength were probably never equalled in any other sort of organization. The requisite then was to get the thing done, to get the train through, to repair the washout, to get the wrecked engine back on the track, to move the traffic. It did not matter so much how it was done. The point was to get it done, and methods were evolved which were never heard of in the most advanced schools of technology. For a good many years not much attention was paid to the refinements of traffic statistics. We were not interested in the particular fraction of a mill which it cost to move a ton of freight a mile. We were just interested in moving it, and the most resourceful men, the men who would best overcome unexpected difficulties, and do it quickly with the very limited resources which were at command, were the men who were most successful in the railway field.

“All that is changing, and in many sections of the country has already completely changed. In those days that are past a technical education counted for little. All the knowledge that a man ever got out of a technical school would not have helped him

much in many of the emergencies which were the daily life of railroad managers. Resourcefulness, mother-wit, determination, and strength were what was wanted. But the men who possessed these characteristics, and who made the greatest success in railroad business under those pioneer conditions, began later to find that there were men growing up in the organization of the older roads who could design a locomotive that would pull a longer train than any they could move, and do it with less coal; men who could build stronger bridges for less money, because they could calculate to a mathematical nicety strain and strength of material; men who, though they might be lacking in those forceful characteristics which had brought success on the new roads, were able, with their thorough technical knowledge, to reduce cost, to effect economies, to perfect systematic organization, and to contribute toward the creation of a railway system so smoothly running and so well organized that the very emergencies which the pioneer railroad men had made their reputations in meeting will never arise. We still want resourcefulness, vigor, and force, but those qualities must now be coupled with technical knowledge. Other things being equal, the railroad with the best educated staff will be the most successfully operated."

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The view of this railroad president in his own field, I believe, illustrates what is much the same condition in almost every line of industry. American resourcefulness has been the wonder of the world, and has accomplished, surrounded as it has been with unparalleled richness of raw material, an unequalled industrial development. But we are reaching a point, and the older nations of the world have long before us reached that point, where it is of great importance that technical training and scientific education shall be brought to bear on every phase of industrial organization. I believe that the relative efficiency of nations was never before so largely influenced by the character of their educational facilities as is the case to-day. The tendency in our whole industrial and commercial life is rapidly giving added importance to education.

It is, I know, a somewhat common view that the great industrial organizations which are the order of the day tend to reduce the workers to little more than automatons. Some people believe that education is becoming of less importance, because they see that there is a tendency toward subdivision of labor in these great organizations, resulting, as it does, in so arranging the work that men do their appointed task with the smallest need for thinking, and with

less requirement in the way of mental training than was the case before those industries were so highly specialized and the work so subdivided. That view is correct as applied to a great mass of workers. The automatic machine needs little more than an automatic mind to run it. Our great locomotive shops, for instance, have so subdivided the work, and have produced so many special and almost automatic machines for forming each part, that they can take men off the streets with no knowledge of mechanics, and have them thoroughly trained in a fortnight to do some particular piece of work which would, under the old methods of shop practice, have required a highly skilled and experienced machinist to perform.

These industrial combinations and consolidations which may bring almost an entire industry under a single management, create a demand for educated labor, however, which is keener than ever could have been known under a system less highly specialized.

Take, for example, an industry in which there were, say, one hundred individual organizations, each one producing an average product costing \$100,000. An industrial chemist might, with his technical knowledge, we will say, effect a saving of one per cent in the cost of this product. Suppose that were

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made clear to any individual employer. He would say that, although he might effect a saving of \$1,000 in the cost of his year's output, the salary of the chemist would be \$5,000. He could not afford the economy.

With these industries all combined the chemist's \$5,000 salary could be paid, and from the one per cent saving in the cost of the total product a profit of \$95,000 left as a result of the economy effected.

As combinations are made in the industrial field, the possibility of employing highly trained technical experts rapidly increases, and in that possibility alone lies frequently one of the greatest incentives toward combinations. The margin of profits sometimes grows very narrow under the stress of international competition. Where there is sharp international competition the prosperity of a whole industry might easily depend on whether or not each one of its processes were conducted according to the very best practice the ablest technical experts can work out.

Technical training is therefore becoming of vastly more importance than ever before, and those nations which are offering the best technical training to their youths are making the most rapid industrial progress. A study of the international field brings that fact out with perfect clearness. Where education is

lacking industry is lagging; where education is stereotyped industry is without initiative.

The necessity for thorough education and the best technical training has become almost as great in commercial affairs as it has in the industrial field. The methods of commerce to-day cannot be as easily compared with the methods of a generation ago as can the processes of industry now and at that time, but I believe that the changes in the methods of commerce have, in many cases, been as radical and the improvement as great as in the field of industry. Two generations ago the trained engineer was looked on with disfavor by the practical industrial manager. The man who grew up in the business was thought far superior to the man who got his knowledge from books. The necessity for a technical engineering training is now universally recognized, and no important industrial operation would be undertaken without the aid of technical experts. I believe the same change is coming in commercial life. The commercial high schools of Germany and the start in higher commercial education which we are making in this country are the forerunners of great technical schools of commerce. These schools will turn out men with as superior qualifications for commercial life as have the graduates of the great technical institutions in their special field.

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I believe the great masters of commerce will come to recognize the necessity for and the practical advantage of such commercial training, just as the captains of industry have long ago recognized the value of technical training for engineers.

The requirements for the successful administration of great commercial enterprises are greater than ever before. The scale upon which these enterprises are organized warrants the payment of high salaries to men with the best training, and I believe that those nations that are providing schools best adapted to the thorough training of recruits for the ranks of commerce will make the greatest progress in developing the commercial side of the national life.

Education in its relation to national development is viewed from two fundamentally different standpoints. In America we have in large measure regarded the universal education of citizens as necessary to the proper political development of the republic. The idea underlying our whole educational system has been that the sovereign citizen must be given such training as will enable him to form his political opinions with intelligence and to vote with understanding. The effect of education upon commerce and industry has been quite a secondary consideration. In the main the

work of the schools has been directed toward turning out intelligent citizens, and but comparatively little attention has been given to so shaping education that it will make of each student the most effective industrial unit that it is possible to produce.

In Europe education has been viewed from a different standpoint. The theory of education in Germany has been that it should be the work of the Government schools to turn out the most efficient economic units, while the tasks of the captains of industry were to organize these units into the most effective economic corps possible. The result has been the most thoroughly trained and organized system of industry in the world, with the possible exception of our own, and, in many respects the German system presents points of superiority even in comparison with our own industrial system.

The German Government years ago deliberately set to work to organize a system of education which should be a means of national development. The idea was not that education was needed to make intelligent citizens, but that it was needed to make effective industrial units. Intelligent citizenship has really had small place in the centralized personal government which the Kaiser has developed, but in no other nation has there been such intelligent administra-

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tion of the system of education from the point of view of training men to work efficiently.

In France there has been quite another fundamental idea underlying the whole development of education, and impressing itself strongly on the national character. The school system of France seems to have been designed neither to make intelligent citizens nor to turn out effective economic units. It seems rather to have had for its object the preparation of persons to pass certain Government examinations. A double incentive has existed of sufficient potency to shape almost every mind of France in this hard and fast mould of stereotyped education. This twofold incentive has been on the one hand the securing of a reduction of the forced military service, and on the other the opening of the way to a civil-service appointment. The student who succeeds in passing the Government civil service examination may reduce his military service from three years to one. There is absolute democracy in the French army, neither birth nor wealth offering any escape from the military service. The one way leading to a reduction in the length of that service is through a Government examination. It is easy to see, therefore, how universal must be, in every walk of life, the incentive to mould the minds of

children along only these stereotyped lines which the Government examiner recognizes as an education.

It is through this same door that entry must be made to a civil service position, and there is nothing short of a mania in France for drawing a public salary. The result has been the most uniform and stereotyped system of training that youths were ever subjected to. There are nearly 400,000 paid officials under the French Government. For every voter one person holds some sort of a public office. The French characteristic of thrift has resulted in giving a vast number of people small incomes from their investments. Economy is little short of a national disease in France. This army of small investors has incomes insufficient to support them in idleness, but large enough so that, with only a small addition in the way of a salary, the financial problem of life is solved. That is the reason why there is such a universal desire among the middle class for Government employment, and why the incentive to obtain an education enabling one to pass a Government examination is so overpowering.

There were recently vacancies for four clerks in the office of the prefect of the Seine. For these four positions there were registered 4398 applicants. Washington at

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its worst surely has nothing comparable to that. Every one of these 4000 applicants, however, could have passed an examination along certain stereotyped lines which would have delighted the hearts of our civil service reformers.

The result of the French system of education has been to produce an extraordinary uniformity of mental type and capacity, especially among the middle classes. The French system of education is intensely national. Its plan is exactly the opposite from our own school system. With us the local community controls primary schools. In France the local community has no voice in the matter. The French system is the most centralized, the most strictly regulated, the most autocratic, and the farthest removed from democratic ideas of any other school system in existence. The exact uniformity of the schools is almost unbelievable. The Minister of Instruction, sitting in his office in Paris, can tell at any moment just what fable of Fontaine each child of a certain age throughout the whole of France is reciting. Teachers are not allowed any latitude at all. The result is to leave both teachers and scholars almost completely lacking in pedagogic originality.

The whole national life is being affected by this uniform system of education. The

corps of teachers has all been made in the same mould. All have passed through an exactly similar training. All have passed successfully exactly the same Government examinations. The Government tries to break in on this deadly uniformity by making a point of sending teachers to other than their native districts. Northern teachers are sent to southern schools and southern teachers to northern schools. By this plan the Government possibly does something to foster a spirit of unity throughout the nation, but the uniform mould into which every mind is forced remains the same.

There is no tendency in France toward making the educational system less uniform. The victory of the Government over the religious orders and the consequent closing of the clerical schools will have the effect of making the system more stereotyped than ever. There are French educators who declare that the whole school system of France has been shaped into a huge civil service employment agency. They admit that true education has been forgotten in the effort to coach children to pass certain fixed examination forms.

There has seemed to be no room in France for the growth of secondary schools or colleges — schools of which it is a man's pride to be an alumnus, and where a fellowship

develops that is an important influence all through life. There are no such schools in France as Rugby and Eton. It is never regarded of special importance where a man was educated, and college friendships play a smaller part in after-life than is the case with us or in England and Germany. The university life in France is gathered almost wholly in a single institution in Paris, instead of being scattered through all the provinces, as in Germany. The so-called French colleges are not comparable in organization with the German gymnasiums of the various grades. The technical schools, on the other hand, have been much more differentiated in France than in Germany, and instead of gathering civil engineering, electrical engineering, and mining engineering into a single great technical school, these subjects are taught in separate schools. The trade schools are strong in the lines of artistic decoration. In some respects they are the best of the whole French educational system. They are in the main not a part of the national system, but are under the control of individuals.

The French school-boy is taught facts. Facts are ground into him with cruel diligence. The American boy would be staggered by the tasks that are set him. The hours that he spends in memorizing make

the French school system resemble the Chinese. Few school-boys in other countries have so much work to do. None are so systematically and persistently crammed with knowledge. But the French school-boy is not taught to think. The result of such a system of education is revealed in the national life. France to-day of all great nations is characteristically without initiative. She is not maintaining her place in the first rank of nations. So far as the great middle class is concerned, France is decadent. It is true that there are painters, poets, and authors who are geniuses that any nation would have been proud of in any period, but they are the exceptions. Their minds have escaped the deadly process of stereotyped French education. The rule has been the making of a nation with minds all formed in one mould, a nation which is stationary in its commerce, its industry, and its business development, and which is pushing on to no new accomplishments.

The French have wonderful ability for certain skilful and artistic forms of work. Their industries are less open than those of any other country to the competition of automatic machines or of work done *en masse*. No tariff walls are effective barriers against superior taste and art. That fact alone is what saves the industries of France. She

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has neither the commercial vigor and initiative nor the ability for commercial and industrial organization to enable her to compete with Germany or the United States in any of the great fields of international industrial competition. There is none of the modern spirit of industrialism which manifests itself in that superior organization and combination which are the keynotes of industrial life in Germany and the United States. There are lines of artistic accomplishment in which she stands unchallenged, but in industrial organization she has not taken the first steps. Perhaps all this may offer ground for congratulation rather than regret, but it is, at any rate, an obvious fact, and one that can in no small measure be traced to the French system of education and its effect in shaping the national character.

In England as well as in France the system of education has produced marked effect upon the national character. France has just been through a great national struggle to free herself from the clerical schools. Education in England is still in the hands of the clericals. It is not in the control of the teaching orders of the Catholic Church, it is true, but it is practically under a control exercised by the Church of England. It is possible that such a control of education is beneficial to the morals of the English youth.

There can be nothing more certain, however, than that it has proved a stumbling block in the development of anything like a modern system of education. The Education Bill passed two years ago makes it obligatory that at least half of the teachers in the public schools must in the future be members of the Church of England. The result of the control which the Church has always exercised in greater or less degree has not been one which would lead educators to believe that a school system can develop along the best lines when under the control of any single religious organization. There is nothing in the development of the English school system up to the present that leads one to believe that the Church organization is well adapted to direct a modern system of primary education.

In America we find a school system designed to make intelligent citizens; in Germany, a system intended to produce the most efficient economic units possible; in France a system designed uniformly to mould all minds to pass through the door of a Government examination, the only door which opens to a reduction of the forced military service, and to possible civil employment. In England none of these standards seem to have been set up. While the corner-stone on which the great German

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Empire has been built has been an educational system designed and recognized as a means of national development, the statesmen of Great Britain have never given thought to education from that point of view. No British statesman seems ever to have conceived that a perfect system of education would redound to national greatness. Colonial expansion, military efficiency, naval strength, and the power of accumulated wealth have each in their turn appealed to Englishmen as foundation stones upon which to build a greater Britain, but the thorough education of the people has not been recognized as one of the most substantial of foundation stones. The upbuilding of a general system of education as a means for national development has never received the serious study of a representative body of Englishmen.

The debates upon the Educational Bill two years ago, dragging through months of parliamentary consideration, never once rose to an intelligent and comprehensive discussion of Great Britain's needs in the way of a better school system. To my mind there is the most obvious evidence of that need. Parliament, however, spent its time debating over just what measure of control the Church of England should have, and what small voice the dissenters would be permitted

to raise. There were days of discussion of these points without the slightest recognition of how great is England's need for a thoroughly efficient modern school system.

There are a great many very excellent people in England who do not believe in universal education. I have talked with university men who hold the carefully considered opinion that universal education, except of a most elementary sort, is not desirable for the nation. They believe that a serving class is necessary, and that education only tends to make such a class dissatisfied with its lot. Recognizing that there is a great amount of unskilled work to be done, they think that education does not help a man to do it, but may tend, rather, to make him dissatisfied to work on as his fathers have worked. Such an opinion, I believe, is pretty widely held in England, and any scheme looking toward carrying universal education beyond the most primary limits would be regarded by a large number of admirable people with disfavor.

The British Government has no disposition to load the national budget with any further increases on account of education. Since the South African War the Chancellor of the Exchequer has found many serious problems in the budget. It was found possible to raise a billion two hundred million

dollars for the prosecution of the Boer War, but English statesmen do not feel that the Government can afford to recognize any new claims on the budget for the support of education.

That was well illustrated recently when the representatives of all the universities in England held a conference with the Prime Minister and the Chancellor of the Exchequer. At this meeting it was sought to impress upon the Government the advisability of a more liberal attitude to the higher institutions of learning. The object of the meeting, as stated by Professor Pelham of Oxford, was "to impress upon the Government certain facts, long recognized abroad, and gradually forcing their way to recognition in England, the facts being that there was such a thing as knowledge, that it was as well worth having for nations as for individuals, and further that it could not be had without paying for it."

In stating the claims of the institutions of higher learning for some support, Mr. Chamberlain, speaking as chancellor of the University of Birmingham, said:

"In the competition we now have to endure with foreign countries, higher education is a matter of the first importance. Those who are to be leaders of industry, managers of our works, foremen in our

shops, should have a much higher education than the mere 'rule of thumb' knowledge they have possessed up to the present. It is to provide these men, who will, by their work hereafter, I believe, return a splendid dividend on the money we spend, that we have promoted these local universities, and that we now come to the State and ask it to take our needs into consideration. Already the State pays something like £13,000,000 a year for primary education, but only a few thousand pounds are found for the higher education to which we have learned to attach so great a value."

Sir William White, President of the Society of Civil Engineers, told the Prime Minister that if the position of Great Britain was to be maintained, it was absolutely necessary that the system of educational instruction be placed on the best possible basis. While Great Britain still held a lead in ship-building, for example, both Germany and the United States were far ahead of Great Britain in the scientific instruction needful for ship-building, and unless the scanty provisions now existing in England for such instruction is placed more on an equality with the provisions in Germany and the United States, that lead may be difficult to maintain.

Other speakers recognized the need and

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deplored the deficiencies of scientific training and the work of research in England, and declared that the English institutions were handicapped by the lavish expenditures of Continental governments and the munificence of private liberality in the United States.

Mr. Mosely, who at the head of a commission had given the system of education in the United States most careful study, said that he was so impressed with the advances in this country that he had decided to send his two sons to college here.

The Chancellor of the Exchequer, in reply to these representatives of higher education, declared that, in his opinion, it would be a great misfortune if it were once to be thought that it was the duty of the State to furnish the whole or the main portion of the cost of the higher education of the country, or even if the State were to come into such relations toward university education as it now occupies toward elementary education. The prospect for any considerable State aid to higher education in England, he said, is a long way off.

The need for that aid, and particularly the need for great improvement in the facilities for technical education, is immediate and obvious. In my opinion, no small part of England's loss of prestige in the world's commercial life — and that there has been a

relative loss there can, of course, be no doubt — is due to the failure of the great body of representative and intelligent men who shape English public opinion to recognize the important influence of an adequate school system upon the national development. There has been no disposition in England to adopt the view which underlies the whole German educational system — that is, the deliberate creation by the State of a school system as a means for national development. English statesmen have not recognized that through developing by thorough education the effectiveness of each individual in the nation a great stride is taken in the development of the nation itself.

Trade education in Switzerland has been carried out as completely as in any other country in Europe. The larger towns in Switzerland are probably better provided with such schools than any towns of the same size in the world. Cities like Zurich, Basel, and Bern have important technical schools, but the system is carried out as well in the smaller towns. The Government has done a great deal in the way of encouraging exhibitions and sending out travelling sample collections throughout the country. It is the boast of Switzerland that none of her industries are without sufficient agencies for providing the requisite special study and

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training, and these agencies are generally situated near the local centre of each industry. There are preparatory schools for watch-making, for weaving, for wood-carving, stone-cutting, dress-making, pottery and toy-making, as well as many schools for women for domestic training. There are schools for many of the smaller house industries, which occupy a peculiar place in the commercial make-up of Switzerland.

There seems to me little room to question the general superiority of the German system of education. That it is on the whole superior to the systems in vogue in England or the other countries in Europe is, I think, generally recognized. That in some of its particulars it is superior to our own system can, I believe, be readily established. These points of superiority are giving the German Empire substantial vantage-ground in its commercial competition with the world. The plan underlying the whole educational system there, of developing each individual to a point of the highest industrial or commercial efficiency, gives a practical trend to education which, with us, is not paralleled.

From the point of view of increasing the industrial efficiency of a nation, Germany has, it seems to me, worked out some features of her educational system in a way distinctly superior to conditions in the United States

or any other country. The Germans have reasoned that if education is to meet the needs of a wide diversity of calling, it must itself be adapted to the diversified needs of the men who are to be educated. It is not surprising to find in the larger German cities a fully established educational system, with all the ordinary facilities of university and technical schools, gymnasium, preparatory and day schools, all excellently conducted and thoroughly up to date in their methods. All that one would expect to find there. The point where there is distinct and novel superiority is in the completeness of the system of evening schools of the several classes and the provision for trade schools. No German youth need go without either a general or a technical education, no matter what his circumstances. For those who leave school after the age of compulsory attendance is past, there are evening schools for general education and trade and technical schools of the widest diversity of scope. Whatever trade a German youth may pursue he will find open to him evening schools in which he may improve himself in his trade, may strengthen his technical knowledge so as to fit himself for a higher position, and at the same time may have his "formative power," as the Germans call it, strengthened and diversified.

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This is the underlying idea in the whole German educational system: first of all, a certain fundamental set of subjects well learned, such as elementary mathematics, the German language, and possibly some foreign language; after that the opportunity, whatever the man's circumstances, to improve himself in his trade and in his general education, either in a day-school or in a night-school. In other words, a series of schools so diversified as to serve the interests of every class in the national population. In Berlin and in most German cities these trade schools, such as those for shoemakers, tailors, carpenters, metal-workers, masons, etc., have been conducted with very friendly relations with the unions; and in many cases the boards of inspection have upon them members of the trades-unions.

The perfection of this plan in Germany comes from the fact that the direction of the State departments of education in the various German states, but particularly in Prussia, has been for many years in the hands of very able men; the development, for instance, of the Berlin system of evening schools, begun some twenty years ago, was carried out under the direction of the best men of the city.

So far as the highest institutions for technical learning are concerned, Germany prob-

ably has little, if any, advantage over us, although, in certain fields, and fields of great commercial importance, we are notably deficient. That is particularly true in the field of industrial chemistry. In the practical application of expert chemical knowledge Germany leads the world so far that other nations are quite outclassed, and the reason for that must be found in the superiority of her schools. Germany's prominence in that one field is an enormous aid to her in gaining and maintaining her industrial leadership.

Germany is a land of small salaries, and we are supposed to be ready to pay more than any country for the desirable services of any man. I was surprised, therefore, to learn that we could not attract some of the great professors of industrial chemistry to our own institutions, because we could not pay salaries that would approach the salaries which they received in Germany. In this field of industrial chemistry there has been developed close relations between the academic and the practical. A professor of industrial chemistry in one of the great technical schools will not only be regarded as a leader in scientific circles, but he will occupy an intimate and most remunerative relation toward industrial enterprises. I was told that the professor of industrial chemistry in the technical high school of Charlott-

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tenburg received a salary of \$25,000 a year. When our own institutions have endeavored to secure men of this type from Germany they have invariably found it impossible because the remuneration there was more than our institutions could afford to pay. The higher remuneration in Germany is possible because of the intimate relation which has been built up between the schools and the great industries. The problems which came before the managers of these industries are laid before the technical schools, and the schools are well paid for solutions of those problems. Then, in turn, industry flourishes because of the superior methods which these technical experts invent.

It is not my purpose to attempt anything like a complete description of the German system of education. That has been done many times by observers much better qualified. It is only toward some phases of the situation that I would direct attention, and toward some of the features which, in a casual observation, have seemed to me specially interesting.

In primary education I am told that there are two principal tendencies characteristic of the development of the curriculum throughout Germany. One is toward the training of the mental perceptions, the power of original observation; the other is in the

direction of the development of oral expression. This is exactly the opposite of the tendency in French education, where learning by rote, memorizing facts, and preparing to pass stereotyped written examinations are the order. The German point of view is that pedagogy is a scientific branch of knowledge based on definite laws of psychology, and that further discoveries are being made from time to time in this as well as other sciences. It is held, therefore, that any educational system which rests on the mechanical application of certain methods merely because those methods have long served a useful purpose is as foreordained to inefficiency and ultimate failure as would be the doctor or chemist who declines to avail himself of fresh discoveries of modern science. The whole system of education in Germany is a living thing, totally unlike the system either in France or in England.

The American boy who had to endure the *régime* of either the French or German schools, would, so far as downright hard work is concerned, look back upon his home experience as being almost an idle holiday in comparison. In the elementary schools in Berlin and Charlottenburg, and I presume elsewhere in the empire, the schools meet at seven o'clock in the morning in summer and at eight o'clock in winter. The habits of the

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gymnasium are carried into the classroom, and great attention is paid to pose and movement. Any tendency toward slouching is sharply checked, and smartness of bearing is carried almost to an extreme. The influence of the army is already felt the moment the boy enters his first class.

One feels in Germany that the whole nation is at school. All public institutions make special provisions for school-children as a class. Churches have reserved seats for them, theatres give special performances, and railways and steamships are required to give special rates to school-children accompanied by their teachers. There is compulsory education for children from six to thirteen years of age in the country, and from six to fourteen years in the city. Compulsory education is practically fully realized. The average daily attendance is about ninety per cent of the total enrolment. The habit of school attendance in Germany has become almost automatic. Parents are fined from one penny to a mark a day for every day a child is absent without a proper excuse, and are actually imprisoned if the fine is not immediately paid.

It is not in primary education, however, that the marked superiority of the German system, in its effect upon the industrial efficiency of the nation, offers such sharp

comparison to the conditions in other countries. It is in the industrial education, which beyond question is one of the most powerful weapons of Germany industry. The industrial schools of Germany have been picturesquely described as the "ironclads" of commerce.

One feature of industrial education which has no parallel outside of Germany is the universal provision for trade schools. Not only are many of these founded and supported by the State, but there are also a great many maintained by local guilds and industrial associations. Our own labor organizations are antagonistic to apprentices, and look with no favor on trade schools. Labor unions are not strong in Germany, but even where they do exist their attitude toward education is not only friendly, but actively helpful to the extent of contributing toward the support of trade schools.

These trade schools offer the opportunity of acquiring a technical training in almost every trade. In the main the students are already active workers in the trade in which they seek a higher technical knowledge. In these trade schools is an exposition of the most modern methods of work, and there is shown there the latest development in machines and inventions. The teachers, as a rule, have a good preparatory training and

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come directly from the trade which they aim to teach. Frequently they work at the trade during the day and teach in the evening and on Sundays. They are, therefore, fresh and thoroughly up to date in their practice. A most important feature of these trade schools is that they do not stop at the purely technical side of the trade, but seek to insure wise business management by including studies which prepare the student for the practical conduct of the business. Side by side with the technical training are given the general facts of production and consumption, of cost prices and market values, in the particular trade in which the student is interested. He is taught bookkeeping in its most practical application to his especial business, and is made familiar with the legislation of importance to his particular industry.

These trade schools offer opportunity not only to those who can afford to substitute them for regular school work of a more academic character, but they are specially arranged to accommodate students who must work during the day. It strikes one rather oddly to find how generally Sunday is given over to this sort of instruction, and that thirty-five per cent of the total hours of instruction in the industrial schools of Saxony, for instance, fall on Sunday. This general devotion of Sunday by thousands of German

youths to the gaining of instruction in the scientific and technical sides of their chosen trades contrasts curiously with the tremendous pother which is going on in England over what voice the Established Church will permit the non-conformists to have in the religious instruction which forms an important part of the curriculum of every school day, for that practically is the paramount school question in England.

These German trade schools are undoubtedly having an enormous effect upon the industrial efficiency of the whole nation. They are designed to train the rank and file. It is in the great high schools that the officers of industry are trained.

The most interesting educational movement in Germany to me is the development of higher commercial education. We recognize that an engineer or a mechanic will profit by a technical education. There is no longer a doubt that a technical education will enable such a man to outstrip in the long run his fellows who have equal ability, but have learned only in the slower and less scientific school of experience. There are as good reasons, I am convinced, for giving the banker or the merchant a technical commercial education. The schools do not turn out a practical engineer, nor will they turn out a practical banker or merchant, but I believe

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that there is a great amount of information needed by a man in commercial life which is capable of scientific classification, and can be taught with much greater efficiency, and with much less loss of time, in a properly organized school than it can be gathered in the ordinary course of an apprenticeship in a business career.

The German *Handelshochschule*, or commercial high school, is not a parallel to our high schools, but is of a university type. These *Handelshochschule* are designed for students who already have an education equivalent to that obtained in our high schools, or perhaps even in our colleges, and who have also two or three years of business practice. The scheme of these schools is to educate men for the high positions in commercial life. They are not for ordinary clerks, for whom an ordinary *Handelshochschule* offers satisfactory preparation.

In outlining the aim and work a professor in one of these schools said to me:

“We understand perfectly that business men must be trained by actual practice, but we do believe that a good theoretical training and the formation of proper habits of thought will prepare a man to learn quicker and more thoroughly all practical work. From the experience that I have had, I believe that such an education will make him

at the age of twenty-five more advanced in his special line of business and better qualified to handle it than he otherwise would have been at the age of thirty. Our students get a good deal of knowledge regarding political economy, law, languages, etc., but it is our highest claim that we give to our men the independent, exact, inquiring, researching spirit of German scientific workers at a time when they are young enough to apply this spirit with enthusiasm to the business in which they are engaged. That is the first thing we set out to teach — a habit of thinking which will combine general principles with exact knowledge of details.

“There are two lines of instruction followed in the *Handelshochschule*, a general one of the old university fashion and a technical one of new organization. The general instruction is of the highest university standard, and is given by university men at Cologne, Frankfort, and Leipsic. Generally the students of the *Handelshochschule* are entitled to follow the same lectures as university students. The teachers of technical matters are new men in a new line, and are naturally not altogether satisfactory at the beginning. There is much difficulty in getting men with the proper training for the work which we want done, but I believe that we shall succeed in getting good faculties

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who can give thorough instruction in practical business methods.

“The technical lines of instruction include accounting, correspondence, calculations, and languages. I think American accounting methods are more advanced for the moment. We aim to teach thoroughly the mathematics involved in arbitrage and exchange operations, and in connection with business finance and insurance. Most of the instruction is by lectures. ‘Learning by doing’ seems rather inadequate for the age of our men.

“Lectures are being developed on the technology of our chief industries, now partly done at Leipsic; on the history of some of the leading industrial and financial institutions, now partly done at Cologne; and on the practical handling of duties and tariffs of the world. In economics we endeavor to have every year lectures on money, banking, foreign trade, and the history of commerce and banking. All of these lectures, of course, are in addition to the regular lectures on theoretical and practical economics, government finance, and statistics. You will find in these schools a tendency to be up to date in facts, and to care less for the details of historical development than most German economists do. But we have put it down as strict principle not to make any

concessions in scientific methods and exact thought. We offer courses in commercial and corporation law and the laws relating to bills of exchange and bankruptcy. The courses in geography are particularly varied. They embrace not only cartographical facts, but also the chief products of different countries, the transportation systems, etc. We take the students on excursions to see interesting plants. At Cologne an arrangement has been made to have a series of short lectures by business men and secretaries of industrial corporations.

“The ordinary course which we favor extends over two years, and presupposes a sound preparatory education. A new habit of thinking and a fund of useful knowledge — that is what we aim to give with our teaching. The future of the nation depends on men. Men are the greatest economical force. The business life of to-day is too complicated to allow the old-fashioned apprenticeship, with its uncontrolled routine, to form the future leaders. The extension of business relations and the development of the great industrial organizations demand a new system of commercial education. We endeavor to teach what those young men who expect to be commercial leaders will need, and we are fully convinced of the importance of this field of instruction.”

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The Emperor, whose clear vision perceives the beneficial influence of industrialism on the national strength, employing the increase in population at home, instead of forcing it to emigrate, and by so employing it adding enormously to the income of the nation, is sometimes obliged to make an almost furtive recognition of the new princes of the empire so that he may avoid offending prejudices of the old aristocracy. Thus an intimation was conveyed to the American ambassador in Berlin before the Emperor dined with him in February that his Majesty would like to have among the guests Herr Rathenau, of the Allgemeine Electricitäts Gesellschaft, the great electrical company of Germany; Herr Ballin, of the Hamburg-American Line; and Herr Wiegand, of the North German Lloyd. His Majesty desired to talk with them about their far-reaching enterprises, each employing an army corps in German industrial conquests overseas. The court circular issued to the press omitted mention of these gentlemen having been present. The annual emigration from Germany since the present Emperor began to reign has declined, roughly, from a quarter of a million yearly to one-tenth of that number. The population of Germany, increasing three quarters of a million a year, has so far been largely occupied at home, but a

speculative problem long pressing on the attention of German statesmen is, how shall the surplus population be disposed of so that it may be retained as part of the national strength and not lose its identity in the United States or other new non-German countries? That problem has so far found a satisfactory practical solution in the expansion of industry and the increased foreign trade. The pressure of population on the means of subsistence must increase, and will probably enable Germany to continue relatively a low-wage-paying country. The Government surely shows the highest wisdom in shaping the educational system so that every citizen is trained to the greatest industrial or commercial efficiency, and taught to make the most of the rather meagre natural advantages which the German Empire possesses.

The Emperor takes the greatest interest in the whole educational system, and particularly in the technical schools. He attends lectures occasionally at Charlottenburg, sometimes going there several times during the season. His interest manifested in this way has a marked influence.

The educational system of Europe cannot be properly considered without taking into account the influence of the army. Practically, every able-bodied man on the Con-

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continent of Europe has been moulded by this influence. The effect of the army training, coming as it does at a most impressionable age, is enormous, and is on the whole, I believe, of great value. Much may be said about the great cost of the military establishments of Europe, but there is undoubtedly a large entry to be made on the other side of the ledger in the value of the army training to the young man. This is very generally recognized in Europe. Mothers part with their sons for the year or the two years of army experience with the very general belief that they will return benefited by that experience. The mind of the peasant boy receives its first great awakening in the army life. He travels and gains knowledge in many ways. In Italy and France particularly, the army is used as a means of bringing people from various parts of the country into contact with each other. Men from the southern provinces are quartered in the north and the northern men are moved to the south, with the result that there is a far better national understanding on account of the years of army experience, and a distinct strengthening of national unity.

Observation of the nature and effect of the various systems of education in vogue in Europe cannot but lead an American to

the conclusion that pre-eminence in industrial and commercial life is becoming more and more closely related to pre-eminence in educational facilities. Such observation would further convince one that more emphasis has been placed on trade and technical schools in Germany than is the case with us. We may have little to learn from the educational systems of other countries than Germany, but from the standpoint of an effective aid to industry and commerce the German system presents points of superiority. We need more trade schools, more technical schools, and far better equipped institutions for higher commercial education. We are turning out quite enough men who attempt to make a living as lawyers and doctors. With great advantages we could shift some of that energy into other channels. If we build schools where every boy who is at work at a trade can learn, under competent masters, the scientific and technical side of his work, we shall have done something of vast importance for the development of national greatness. If we organize a system of higher commercial education which will give as superior equipment to our business men as our great institutions of technology now give to our engineers, we shall have done much to give permanence and world scope to our commerce. Until we have done all

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that we shall have shown ourselves less awake than is the German nation to the aid which education can give to industry and commerce.

V. PATERNALISM AND NATIONALISM

IN any examination of European political and economic institutions, the attention of an American would at once be attracted to the subject of workingmen's insurance. He would find it a subject not only of great importance in European political and social life, but one presenting to him novel considerations, because the institution is practically without parallel of any sort in this country. Nothing that I have seen in Europe has interested me more than the effect of workingmen's insurance. On the Continent one finds it, measured from any point of view, one of the most important subjects that is presented in the whole array of affairs. As a rule, I think Americans have little conception of the extent to which the system has developed, and of the marked effect which it is producing upon national economy and upon social conditions.

Workingmen's insurance conducted as a government, or semigovernment institution, is confined to the Continent. In Great Britain there is no government activity in this

field, the development there being wholly within the ranks of the friendly societies, or else in the direction of the provisions which are made by the great railway corporations for retiring on part pay their superannuated servants. The weight of political sentiment in Great Britain is violently opposed to the adoption by the Government of any position which might lead to national responsibility for workingmen's pensions. On the other hand, in the ranks of the workingmen, and particularly in organized labor, there is a growing disposition to force the question upon the attention of Parliament.

It is on the Continent that we find the governments intimately related to the subject of workingmen's insurance. There has been an interesting development of semi-public semi-government insurance institutions in Germany, France, Italy, Austria-Hungary, Belgium, Sweden, and Denmark, and in all of those countries the movement has assumed proportions of political importance, and the workings of the systems have already produced marked sociological effect.

It is in Germany that there is to be found, by all odds, the highest evolution of workingmen's insurance. In that country a social experiment has been conducted on a vast scale, and I think the movement may fairly be said to mark the most interesting

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recent social legislation that is to be found anywhere in the world.

The significance of the movement in Germany will be better understood when it is noted that 17,000,000 German workmen are contributing to and enjoying the benefits of the pension system. That significance is emphasized when we learn that since the inception of the system, in 1885, the total receipts have reached \$1,750,000,000. At the present time the annual receipts are in excess of \$130,000,000, an amount sufficient to make us consider with much interest the economic consequences of the plan.

Especially is it noteworthy to find that this vast sum has been administered with absolute integrity. The administration of the insurance funds of Germany offers one of the best indications in the world to-day of the possibility of a successful State control of important institutions, even when enormous sums of money are involved. The demonstration, however, has more than integrity to its credit. The collection and disbursement of these great funds have been carried on with an economy which is admirable. In considering the cost of administration of the German insurance funds it should be remembered that collections are made from 17,000,000 individuals, as well as from the employers of those individuals,

and that in making disbursements, particularly of the sick and accident funds, there is a care and intelligent supervision exercised which must make the cost of disbursement quite as great as the cost of collection. There are, therefore, reasons for a much higher ratio of expenses than would be essential in such a system of life insurance as we have in America. But, as a matter of fact, the cost of Administration of American insurance funds makes sorry comparison with the expense of administration in Germany. It is a monument to the economy of the German administration to find that less than eight and one-half per cent of the total income is used up in the cost of administration, and that ninety-one and one-half per cent is paid out in benefits to the insured. A showing like this, so greatly in favor, apparently, of the economy of government administration, would seem to raise the inquiry as to whether Germany has not found a better plan for the administration of insurance funds than we have evolved in this country.

Nothing like a full consideration of the subject of workingmen's insurance is to be given in the space here available. I believe it is a subject worthy of the deepest consideration. Certainly it is one that offers many difficulties before a clear con-

clusion can be reached as to its effect and advisability. There are arguments of great weight on both sides of the subject. I believe, however, that it is a subject which in due time will come before us in America for consideration and action.

Any exposition of even the German system of insurance alone is too complicated to be presented in a brief study of the subject. The system in Germany is an evolution, and in its present form probably none of its friends would suggest that it is an ideal system. Anything like a complete understanding of its provisions is complicated by the fact that there are three distinct forms of insurance — insurance against sickness, against accident, and insurance to provide old-age pensions. An explanation of the system is further complicated by the fact that the administration of these three distinct and separate insurance funds is in many different hands, although all are under the supervision of the general Government. The sick insurance fund is administered by more than 23,000 sick clubs. The accident insurance is administered by nearly five hundred managing boards, which represent various State and municipal communities and various trades and industries. The old-age pension system is in the hands of some thirty-one distinct insurance institu-

tions. An understanding of the details of German insurance administration is, therefore, difficult; but some general considerations of its provisions and effects are easily possible. All the insurance funds are contributed to in about equal proportion by employers and by the insured, and that total is augmented by a subsidy from the Empire. Employers pay in about forty-seven per cent of the total, the workingmen less than forty-six per cent, while the subsidy from the Government provides between seven per cent and eight per cent.

The effect of the institution, as seen in Germany, is of far wider significance than are merely the admirable efforts in alleviating distress caused by sickness, by accident, or by poverty in old age. The results which have been attained in the accident insurance field, for example, are far broader than the mere indemnification in some measure for the suffering and loss which accidents have entailed, and it is likewise true in the other branches that the provision which has been made for the payment of pensions in lieu of wages lost in case of sickness has been only a part, and one might say almost a minor part, of what has been accomplished in that field.

The results of the German workingmen's insurance embrace considerations of the

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deepest sociological consequences, on the one hand, and of a most significant effect on the national health and physique, on the other. The Germans have gone at the whole subject with their characteristic thoroughness, and the whole world will in time be forced to give attention to what is being accomplished.

The German system of workingmen's insurance is founded on a very general belief that the change which has been going on in Germany, transforming that country from an agricultural into an industrial State, and the evolution which has been proceeding in industry, resulting in a great specialization of work and the high development of the factory system, have made necessary an enunciation of some new principles in regard to the duty of the community toward the individual, principles which are fundamental in their character. The intricate and complicated modern system of industry has left the industrial population economically dependent, no matter how free it may be politically, the Germans argue, and the development of that system has brought the industrial population into a position where it is difficult for the individual to extricate himself from his misfortunes should he be overtaken by accident, sickness, or old age. In this new industrial order the liability to accident is greatly increased, and new means

for meeting the condition which that fact has brought about are demanded.

Various nations have recognized the increased liability to accident which has come with the present-day development of industry, and have taken diverse means to meet the new condition. Germany offers the most notable example of a development of accident insurance. France, on the other hand, has undertaken to meet the demands which industrial workers make for some adequate provision for indemnity by passing most rigid and far-reaching legislation, fixing upon the employer the liability and making provision so that the injured workingman may easily enforce that liability in the courts.

In America there not only has been little legislation passed on this subject, based on broad principles of humanity, such as have actuated the German legislation, but there has been little progress toward more definitely fixing the liability of the employer, and making it easy for the injured person to enforce a claim. Instead of that, there has arisen here a system of so-called employers' liability insurance, which are in effect organizations of strength with which to combat weakness, organizations the object of which is not to indemnify the worker for injuries, but rather to indemnify the employer for the cost of fighting in the courts

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the claims of the injured persons. The purpose of this system is not to put the insurance company in the position of a fair employer who will make payment of a just indemnity. Its purpose is accomplished rather by fighting each individual case with all the skill which its organization, made up of experienced adjusters and sharp attorneys, enables it to pit against the feeble efforts of an injured workingman who is attempting to enforce even the inadequate legal rights that our legislation has thus far accorded him. If statistics were presented dividing the receipts of these insurance organizations so as to show what amount they expended in actually paying indemnity to injured persons, and what amount they used in fighting claims and paying dividends, the comparison which those figures would make with the humane institution of accident insurance as developed in Germany would be anything but to our credit.

Germany has accomplished most admirable results in the way of providing indemnity to persons injured in industrial occupations. The work accomplished by accident insurance, however, has been of far wider usefulness. Accident insurance as developed in Germany has really been an insurance against accident, not merely the providing of indemnity. There has been evolved

there, as a result of the study which employers and employees who have been managing these insurance funds have given to the subject, a system of laws and of regulations providing for safeguards which have gone far to reduce the number of accidents, and to remove the danger from industrial callings. In the last few years the effect of these safeguards has been to reduce one-half the frequency of accidents. Viewed from an economic standpoint alone the saving which has resulted to the national economy has been a vast sum. In the United States we seem as extravagant of life as of resources. There is no single line in our national statistics that is read in Europe with such startling surprise as the one which shows 60,000 fatalities and injuries on our railroads in a single year. In other industrial fields we are as careless of life. It seems to be regarded as more economical to fight damage suits than to provide safeguards, and dangers that do not interfere with dividends frequently receive little attention.

It is noteworthy that German employers have willingly accepted the burden they are charged with on account of workmen's insurance. That it is a very considerable burden there is no denying. The Krupp Steel Works alone, for example, contributed more than \$2,000,000 for the purposes

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of workingmen's insurance within the period from 1885 to 1902. The amount which employers are paying, compared with the total wages paid, is showing increases as the operations are extended in the various fields of insurance. The actual contributions to the insurance fund have, too, been only part of the expenses that the administration of the insurance laws has charged the employers with, because they have been forced to spend great sums of money for providing safeguards against accident, and putting their works in the best possible hygienic condition. The general disposition among employers, so far as I have observed, however, is to regard these expenditures as having been made with good value received, because of the increased efficiency and better health of their workmen, and their contentment and fair attitude toward capital.

There have been almost as great indirect benefits connected with the administration of the sick insurance fund as has been the case in the field of accident insurance. Remarkable results have been attained in the prevention of the spread and in the cure of contagious diseases. The sick insurance administration has by no means stopped at the point of giving care and financial aid in cases of sickness. More and more its aim has been to seek, with the utmost en-

ergy, every means for avoiding the disturbance in the wage-earning capacity of the workingmen which sickness entails. It has sought to ascertain the principal causes of sickness, and to combat with organized and scientific efforts the various enemies of public health. The organs of the workingmen's insurance committees have done a great work in educating the people in hygiene, and particularly in reducing the scourge of pulmonary diseases. This has been done through prompt and effective measures of isolation and treatment, and in directing special attention to the question of the hygiene of workingmen's dwellings. The administration of the sick insurance, instead of being confined to rendering assistance to the sick and the invalid, has sought to cure them, and make them fully capable again of earning their former livelihood. In the development of that work the Germans have characteristically gone to the very foundation of the question, and are doing as important service in effectively preventing sickness as they are in curing it or relieving the distress which follows from it.

The effect upon the general level of the national health has been enormous. In the field of hygiene, as in the field of education, the German Government seeks to make of each individual the most effective eco-

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nomie unit it is possible to develop. In doing that, the aid which has been rendered by the direct and indirect results of workingmen's insurance in improving the physical condition and increasing the power of resistance to diseases, and in promoting the recovery and full return to health of those who are ill, has been beyond all calculation.

There is one phase of the benefits which workingmen's insurance in Germany has conferred that is not to be measured by statistics nor weighed with exactness by definite evidence, but it is, nevertheless, one of the most noteworthy of all the influences that have grown out of this great social experiment. There has been accomplished a service of the very first importance in the direction of bringing about more harmonious relations between employers and employees. There is growing to be a better and better mutual understanding between capital and labor, and the administration of these insurance funds has furnished a common ground upon which the two interests can meet and discuss those questions which affect both. The committees that have the administration of all the details of the collection and expenditure of these great funds are made up in part of employers and in part of workingmen. In serving on these committees, employers are brought to a

better understanding of and a closer sympathy with their employees, and workingmen have been given a clearer comprehension of economic possibilities in the field of industry, and have come better to understand their employers' point of view. I do not mean to say that Germany has reached a millennium, and that there is complete harmony and understanding between capital and labor there, but I do feel that the labor situation offers some sharp contrasts to conditions in other countries, and that those contrasts are favorable to Germany. I have frequently spoken of the spirit which pervades so many of the institutions of Germany, the spirit of making each individual member of the commonwealth the most efficient of industrial and economic units. That spirit has accomplished tremendous industrial results. With an educated brain and a well-developed physique, the German workingman is equipped to secure good results, and when there is added to that equipment a spirit which allows him to use his faculties to the fullest extent, he makes strikingly favorable contrast to the English trades-unionist, with his ca'-canny proclivities, and, indeed, to some of our own labor union members, who, working under the arbitrary rules which their unions have laid down, give for a day's wages not the most work they can do, but the least.

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The tendency on the Continent has for a number of years been in the direction of higher customs tariffs. That tendency has underlying it broad influences. The first and obvious one is the ever-increasing necessity for added revenues; for the history of the budgets of nearly every European country is a story of more rapid growth in expenditures than those countries can show in the totals measuring any other phase of their development. Finance ministers have, with hardly an exception, been under the greatest pressure in order to balance the budget; and they have therefore welcomed the growing spirit of nationalism which has permitted them to lay higher and higher duties on the products of foreign countries. One of the most general characteristics of European development in the present generation has been this growth of nationalism — this intensifying of the patriotic spirit — which has demanded at any sacrifice the development of national resources.

Germany has, of course, exhibited this spirit of nationalism in its most intense form, but it has been the keynote of the political life throughout Europe, and is in sharp contrast with the spirit of unity and universal fraternity which earlier in the century became, for a time, the dominant note.

This development of nationalism has fos-

tered a belief in the value of a protective tariff, and that belief has been greatly strengthened by the outlook which all of the European countries have had on the unexampled development of the United States under the influence of protection. In Germany, the necessities of the Agrarians naturally made them strongly in favor of protection for the products of the land; while the rise of industrialism built up a party representing the manufacturing interests, the members of which were as keen as the Agrarians for protection, although they fought the advance of duties which meant dearer food at the same time that they were using every effort to have a tariff schedule enforced which would protect them against the products of foreign workshops. Another influence in Germany has been the Kaiser's intense desire to build up a navy, and the necessity for raising great revenues for that purpose. The history of the tariff in Germany has been practically a succession of legislative measures increasing customs duties; and while these measures have been fought with great bitterness by the industrial population, and particularly by the Social Democrats, the several influences favorable to an advance in the tariff have been almost uniformly effective, and the tariff which a year ago was successfully put

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through the Reichstag and is now awaiting the conclusion of commercial treaties before its general application by the executive departments is the highest which any European country has yet undertaken to put in force.

In France there have been few changes in the tariffs for many years, but the sentiment is overwhelmingly in favor of protection, and there is no important opposition to the high duties that are in force. In addition to the high protective duties, there has, indeed, been much special legislation in France, which is of a character to put difficulties in the way of the importation of foreign products and to make the domestic market more secure to home manufacturers. This special legislation is in the nature of clauses inserted in public franchises, which provide that the public utilities built under these franchises must be constructed wholly from material produced in France. This is a common provision in franchises for electric roads and gas and electric lighting plants.

That same spirit is notably strong in Russia, where it has been decreed that all railroad construction must be carried on with rails from Russian mills, and, generally, that every sort of material used in the building of railroads must be of Russian origin. This

was the economic rock that Minister Witte steered against, and with anything but pleasant results. M. Witte was the strongest of protectionists. He not only believed in high protective duties against almost all foreign importations, but he encouraged the Czar to sign ukases which practically prohibited the importation of foreign material for use in public works, and particularly in railroad construction. The result of that policy was, temporarily, most encouraging. Foreign capital, recognizing the vast requirements which the development of M. Witte's plans in regard to the Russian railway system contemplated, was induced to construct factories on an extensive scale. The disaster which came to nearly all of these enterprises was by no means, however, entirely attributable to faults in M. Witte's economic programme. French and Belgian promoters induced small capitalists to make, in the aggregate, huge investments in these enterprises, but in many cases the promoters had no thought beyond reaping the largest possible profit from the stock subscriptions. There were companies organized which never got further than a point where the promoters divided the spoils.

The size of Russia and the lack of public knowledge regarding conditions there made an ideal field in which promoters could weave

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fairy tales regarding prospective profits, and the catch of gudgeons was one of the richest that has ever been known. There were, however, many legitimate enterprises, and, unfortunately, some of these at the end did not fare much better for the investors than those where the promoters never took the trouble even to construct the factories for which they raised the capital. So long as railroad building went forward rapidly and the Government could afford to pay the extremely high prices which the domestic market commanded, the legitimate manufacturing enterprises thrived; but when the development of new public works slackened the factories were left without orders. Conditions were far from parallel with those during the early industrial development of the United States, and that, perhaps, was one of the miscalculations that M. Witte made. The Russian peasant population is, of course, in no wise to be compared with the population in this country, and the domestic demand for the products of these manufacturers — once the Government orders failed — was practically nothing. Statistics of Russia's vastness are in some ways most deceiving. It is true that there is a population of one hundred and forty millions; but if that population could be measured by some comparative

economic unit, so that its productive and consumptive capacity were compared with such individual capacity in the United States, for instance, the real economic value of that great population would dwindle in a most surprising way. Any one who has seen Russian peasant life in the "mir," any one who has seen the shelters which are called houses, looked upon the decoction of black bread and cabbage which, with an occasional supplement of vodka, forms the usual food of the vast population, will understand what a small economic value must be put on each unit of Russian population; and that makes it easy to understand the complete stagnation which fell upon Russia's new industries, which had grown up under the intense stimulus of a prohibitive protection and were then left stranded by the stoppage of Government orders.

Trade in Europe has not only the national difficulty of tariff walls to surmount, but the free interchange of commodities is greatly interfered with by the *octroi* duties. This form of taxation is general in France and Italy, and is found to some extent in Switzerland, and has a most pronounced effect upon industrial development. The tendency is toward abolishing this interference with trade, and in several of the cities of France the *octroi* has been done away with. It is

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still in force in Paris, as every one who has even crossed the city lines in an automobile, and had his tank of gasoline measured when he went out and when he came back, will remember.

Italy is a land of high tariffs and of severely enforced taxes, but in some sections there is being shown a growing liberalism in the administration of her customs affairs. That country has adopted from us the bonded-warehouse idea, and has expanded it considerably further than we have. There are being established in Italy what are known as free customs zones. These zones are merely bonded customs warehouses on a large scale. They are zones into which goods may be freely imported, manufactured and re-exported, the manufacturers being permitted to erect the necessary buildings and given almost complete exemption from custom-house formalities so far as the goods manufactured there are re-exported to foreign countries. All food consumed within these zones must pay the customs duties. Such a zone has been established in Genoa, and it is proposed to develop in other seaports — especially in the North — similar free zone systems. Manufacturers in the interior whose foreign business is interfered with by this plan are naturally found in opposition to it, but it promises to be success-

ful and to add to the rapidly growing industrial importance of northern Italy.

Not many people in the United States are fully aware of how rapidly Italy is advancing in industrial importance. In some ways northern Italy has, in the last ten years, shown as promising development in an industrial way as is to be found anywhere in Europe. Italian industry has always been handicapped by lack of fuel. It has been difficult to compete in the world's markets, when power had to be obtained from fuel imported from England; but in the last few years Italy has been rapidly developing the use of the "white coal" from the peaks of the Alps and the Apennines. The never-failing water supply of the snow-topped mountains is being utilized by the electrical engineers in a way which promises to convert northern Italy into a great industrial state. Nowhere in Europe is there a population better fitted to aid in an industrial development. The people are dexterous, quick to learn, and industrious, and up to the present time the general wage scale compares favorably with that of any competitors which they have to meet. The result of these favorable conditions has been, for instance, the development of the silk industry at a rate which sounds like statistics of American industrial growth.

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In the last few years there has been more or less agitation in Europe over the proposal, which had its origin in Austria, for the formation of a European customs union, a plan aimed particularly at the United States. The difficulties in the way are recognized by most statesmen as insurmountable, but the idea is a dream in the minds of some who harbor particular antagonism toward the growth of our commercial interests. European statesmen had at one time high hopes that the United States would agree to a series of reciprocity treaties. Seventeen of these reciprocity measures were successfully negotiated with foreign countries and have now been before Congress for two years or more. There seems to be not the slightest prospect of their ratification, nor is there any growing disposition favorable to them. These treaties would be of immense importance to us, as well as to the European nations concerned; but in every case the reduction in the tariff on goods which would be imported and which would, to some extent, come into competition with goods manufactured in a small way in this country, has led Senators—who broadly favor the reciprocity principle—to protest most vigorously against the specific possibility of injuring some pet industry in their respective States.

The treaty which was negotiated with

France was regarded by Secretary Hay and the Hon. John A. Kasson, who assisted in its preparation, as the most favorable to the United States of all the treaties with the leading nations of Europe, and it was transmitted to the Senate, backed by all the influence at the command of the Department of State, with the view of making a test of whether the Senate would ratify any reciprocity treaty. The treaty provided for a slight reduction in the tariff on knit goods brought into this country from France, and the result of that was that a Senator from one of the New England states was prepared to go to any length to defeat the treaty because it was regarded unfavorably by small manufacturers in his state. He went to other members of the Senate who, while not especially interested in the French treaty, were opposed to the ratification of the treaty with Germany, perhaps, and made trades by which they would mutually assist each other in defeating all of the treaties. The State Department is now completely discouraged and the disposition is to make no further attempt to negotiate reciprocity treaties. This has been particularly annoying to the Germans, who have come pretty generally to believe that the United States has purposely and maliciously discriminated against German goods. There is probably

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no ground for this opinion, but it is firmly fixed in the minds of many Germans, and accounts, in some measure at least, for the hostility that the administrators of the German tariff have shown to our meats and other products.

The Germans have a rather more scientific plan for preparing a customs tariff than we have. There is no such "lobbying" with the Reichstag as we see in Washington; no such pressure brought by various manufacturing interests against individual members, as is the case with us. There is a system of Boards of Trade in Germany which completely covers the country, and which forms a medium of communication between the commercial interests and the legislative body. These Boards of Trade are semi-public in character; and when a measure such as the tariff is under discussion the opinions of individuals and the pressure of interests reach the Reichstag in the main through the medium of the Boards of Trade, and after having been carefully sifted by those representatives of all commercial interests.

While the Governments of Europe do much to hamper the free movement of commerce by their customs tariffs, they have, on the other hand, done much to foster it by the care which they have given to the

development of transportation facilities. The railroads, to a greater or less degree, are controlled by the state in nearly all of the Continental countries, and the tendency on the Continent is distinctly in the direction of more complete government control. Switzerland, by the Referendum, has recently decided to purchase all of the railroads in the country; Italy is contemplating an extension of the state's activities in the field of transportation; in Germany there is no longer any debate as to the advisability of the state's control of the lines of transportation, and there the state is being led into almost communistic fields. The Government's interest as a consumer of fuel, in connection with the operation of the railroads, and the difficulties which it met with at the hands of the coal syndicate, has led it into purchasing coal mines which are to be operated by the state; an experiment which pleases the Socialists and which, if successful, may be followed by others of the same character.

In England alone, of the European countries, the tendency is distinctly away from the state management of transportation facilities. England has had more experience than any other country with the municipal control of public utilities, and, on the whole, the experience has not been satisfactory.

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English taxes in some instances have been increased enormously on account of industrial undertakings by municipalities, and the result is a revulsion of feeling on the part of a great mass of the English voters. The English railroads have always been controlled by privately managed corporations organized for that purpose, but they do not show the superiority, as compared with the state-controlled roads of the Continent, which might be expected. English railroad managers are beginning to wake up a little; but, compared with the men who manage our own railroad properties, they are unquestionably deficient in practical knowledge, and they make a very sorry contrast so far as intensity of application is concerned. The English roadbeds are thoroughly well built, and the English passenger trains are able to make time which compare favorably with the rate of railroad travel in any other country; but when it comes to handling freight, some of the statistics of the English railroads are ludicrous.

A friend of mine was standing on the towering deck of the *Cedric* last summer when she came alongside the dock at Liverpool. By his side was a huge Californian who was making his first European trip and was full of curiosity. He looked far down from the upper deck to the little train of

coaches that was waiting to carry the passengers up to London, and asked what they might be. He was told that it was the special train to London.

"Do people travel in those things here?" the big Californian said. "Why, when I was a boy, I used to play with trains like that."

The comparison was not inapt. As late as the year 1900, the average freight-train load in England was but fifty tons; that is to say, the average train-load was only equal to the capacity of one of our modern freight cars. There has been some improvement since then, and there is now a marked tendency toward heavier equipment, but it all seems like toy equipment when compared with our own heavy trains.

The various problems of transportation by land and water form one of the most important groups of political questions throughout the Continent. In Austria, Germany, France, and Belgium there are few more important political matters current than those affecting transportation. In each of those countries there are most comprehensive plans in hand for the development of the canal network, and each nation is prepared to spend great sums of money in perfecting its canal system.

While the famous Kiel Canal was in-

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tended primarily for strategic purposes, for enabling the German navy to pass easily from the Baltic to the North Sea and *vice versa* in time of war, the economic importance of this waterway has grown from year to year and has given a strong impulse to canal building in Germany. In 1899 the Dortmund-Ems Canal, connecting the great iron and coal district of western Germany with the North Sea, was opened; and its traffic has developed rapidly. It has given the coal industry access to Bremen, Hamburg, and other North Sea ports; and the iron furnaces in the west have found it of the greatest importance to them for bringing in supplies of Swedish ores. In the summer of 1901 the Elbe-Trave Canal, a large waterway connecting the Elbe with the Baltic at Lübeck, was opened. Its importance consists in supplying a cheap line of communication between the many manufacturing cities along the Elbe and its branches and all domestic and foreign ports on the Baltic. At Berlin the Teltow Canal will be completed this year. It connects the Spree above the city with the Havel near Potsdam, and has its *raison d'être* in facilitating through traffic and transforming a number of Berlin's suburbs into manufacturing villages. These last three canals are capable of accommodating vessels of from 600 to 800 tons,

and are thus a wide departure from the old canals inherited from an earlier generation.

The most important canals now projected or under discussion are the so-called Midland Canal, to connect the Rhine and the Elbe; the enlargement of existing canals; and a large new canal, replacing the present antiquated one, between Berlin and Stettin.

Of all these projects by far the most important and at the same time most promising is the Midland, or Rhine-Elbe Canal. It has been under discussion for about ten years. Not until 1899, however, did it take definite shape as a legislative proposition. At that time a bill for its construction was introduced into the Prussian Diet and occasioned one of the liveliest political struggles that Germany has had for a decade.

The chief argument for the canal was, of course, that it would give cheap transportation from the great coal and iron centres of the Rhine-Westphalian country, to all of northeastern Germany. The railways had reached the limit of their freight-carrying capacity, and the building of new ones would be very expensive through the highly developed country traversed by them. The canal, however, met with the stoutest, most determined opposition from the powerful Agrarian element in the Diet. Their chief arguments against it were two: first, its great

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cost, and second, — what they pressed still more earnestly, — the possibility that it would facilitate the importation of foreign grain into parts of Germany not now accessible to the foreign shippers. These were their ostensible arguments; a still more powerful one was not mentioned aloud in the debates: the conviction that the canal would promote the development of the manufacturing and commercial interests of the country and must inevitably tend toward increasing the political and social influence of the population engaged in those pursuits, while the power and influence of the Agrarian and aristocratic classes must necessarily be diminished.

The first canal bill was thus voted down, after its enemies had come forward with many other schemes of a more or less local character, which they sought to have incorporated into it as “compensations” to their localities for whatever damage the great canal might inflict upon them. Nevertheless, the Government did not give up its plan. Herr Thielen, at that time Prussian Minister of Public Works, announced laconically: “Built it shall be, for all that”; and this “*gebaut wird er doch*” has become a part of the political jargon of the time.

After waiting two years the Government again came forward with its canal bill, but

with great additions to it. Not only was the Midland Canal provided for, but also the eastern connections and river improvements mentioned above. The Government had adopted the policy of giving "compensations"; but even that did not placate the Agrarians. They were about to pass an emasculated bill — taking the eastern improvements, so as to get their agricultural produce shipped cheaply to Berlin and other markets, but killing the Midland Canal entirely — when the Government, in May, 1901, put an end to the wrangle by withdrawing its bill and proroguing the Diet.

Last year another canal bill was introduced in the Diet. This provided only for an instalment of the Midland Canal, namely, from Bevergern to Hanover, and for the eastern improvements already described. The Government is evidently on the down-grade in the matter of making concessions to the Agrarians. Its plea for the passage of the original canal bill of 1899 had been based partly on military considerations, like facilitating the transportation of supplies and munitions of war to the west — France is, of course, assumed to be the foe — but now the Government throws away this argument, and is willing to take a truncated canal, which of itself would be of minor importance. It is evidently speculating, however, upon

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more favorable political conditions in future for completing the canal.

France is keenly interested in a comprehensive project for perfecting its canal system. The French Chamber has voted credits of one hundred and fifty million francs which will be spent in the next few years in repairing and enlarging the present canals; and, in addition, nearly five hundred million francs for the completion of new canals. One half of the funds is to be supplied by the General Government and the other half must be provided by the district benefited. The plans are part of a general project for making a system of waterways throughout France by which goods can be carried uninterruptedly from Basle and the Rhine to Orleans, Paris, and the seaports.

Freight and passenger rates on the railways in Prussia give occasion for lively discussion. For some years the great manufacturers have been actively working for a reduction of freight rates on the state railways. They used the schedule of low rates prevailing on the American roads as one of their best arguments, and they emphasize the great advantage that those rates give American exporters in the world's markets as an obvious reason for a reduction of the German rates.

When the Prussian Finance Minister,

Baron von Rheinbaben, was in America, he gave close attention to railway matters, and in recent debates in the Prussian Chamber he gave some interesting results of his comparison of American and Prussian railway conditions.

The state roads in Prussia, Baron von Rheinbaben argued, are compelled to charge higher freight rates than American roads, because, in the first place, the initial cost of the German roads was much greater than the American; and, in the second place, the American roads have a much greater volume of freight to move in bulk than do the Prussian railways, and they also have the further advantage of a much longer average haul. He found that the American roads cost to build, on an average, about sixty thousand dollars a mile, while in Germany the cost of railroad building — owing chiefly to the higher price for the right-of-way — was nearly one hundred thousand dollars a mile. Baron von Rheinbaben gave it as his opinion that the present freight rates in America were largely the result of reckless rate wars, and that these rate wars had had such a disastrous effect upon earnings that the average return upon all American railway investments is less than two per cent. Where there is no competition he claims that rates are fully as high in the United States

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as in Germany, and he also asserted that the comparison was also not unfavorable to Germany when the freight rates on all goods of the higher classes were compared. It was only on low-grade bulky shipments, which could be carried a long distance without breaking bulk, that he found the rates per ton per mile distinctly lower than in Germany. He also claimed that the American roads made up, in some measure at least, for their lower freight rates by charging higher rates for their passenger traffic, and he made comparisons which were favorable to the German passenger schedule.

The argument of the German commercial interests for lower rates in order to assist manufacturers in their export business and aid them in their battle for a foothold in the outside markets has caused some marked modifications in the tariff on goods for export. It is, of course, quite impossible for the Government to satisfy the commercial interests in the matter of rates, and the report of every Chamber of Commerce throughout the empire annually devotes some pages to arguments and recommendations for further reductions.

Not all of the roads in Germany are under state control, but it seems not improbable that the state will eventually operate all of the lines. No charters are given for the

building of roads by private enterprise that do not contain the proviso that they may be acquired by the state after a given number of years.

While we are inclined to criticise English railroads with much freedom, they have a record in one respect which our own railroad managers must look upon with respect. The gross earnings of the English roads never showed an unfavorable fluctuation, as compared with a previous year, of over one and one-half per cent. With all the talk of poor railway management, of decadent industries, and of the economic evils of war, it is confusing to find that the commercial development of Great Britain, measured by her gross railroad traffic, presents an almost unbroken record of advance. Net earnings, however, have been badly cut into by the rise in wages and by the higher cost of fuel.

THE CURRENCY

An address delivered before the New York State Bankers' Association, July 5, 1906.

A COMFORTABLE man is apt to be an optimist. A prosperous man is naturally averse to changes. Such a man is likely to be well satisfied with conditions as they exist. He looks with scepticism upon suggestions that would tend to bring into the situation new factors or new conditions. Bankers as a rule are regarded as typically comfortable and prosperous citizens, and perhaps it is small wonder that they are slow to recognize serious defects in the conditions surrounding them. At least, it is a fact that in the history of American finance, unless spurred to action by some great and immediate necessity, there has rarely been a time when bankers have given effective consideration to questions of banking or currency.

There are in our laws few important enactments in relation to money that have not followed, and in large measure been the outgrowth of, some financial calamity. The Bank of the United States was rechartered as a result of the monetary chaos in which the country found itself at the end of the

War of 1812. The existing Sub-Treasury system was devised because state banks allowed their notes so to depreciate that the banks became unsafe depositories for public funds. The Civil War was responsible for the greenback and for the national bank note.

In financial legislation we have been opportunists. We have rarely done anything until forced to do it by misfortune. It is not that we have been extraordinarily conservative, but rather that we have been inactive whenever conditions permitted us to remain inactive. If financial depression or panic pressed us to a point where legislation became imperative, we then legislated with more haste than wisdom.

It is an easy and natural thing for a banker in these days of prosperity to adopt the principle of letting well enough alone. Such a banker may say that the growth of his bank's deposits and the size of his stockholders' dividends are satisfactory, and therefore he will not worry himself about currency legislation which could hardly make him more prosperous and might make him less. A canvass of the opinions of many bankers might leave doubt as to whether or not there is any currency problem. Certainly there are many successful financiers who will say that there is not. They will tell you that we have a currency as good as gold; that no one ever

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has to consider whether one note is better or worse than another, for all are equally certain of final redemption in gold. They will tell you that there is no lack of currency in a country which has been able to increase its gold stock in ten years from \$500,000,000 to \$1,475,000,000. They may even say that there is not much indication of rigidity in a bank-note system where the volume of note-issues has risen from \$215,000,000 to \$560,000,000 in the same ten years. So, at the start of any discussion of the currency, we have doubt thrown on the very existence of a currency problem. We must first examine the question as to whether or not there is any need at all for the discussion.

A physician counting the pulse-beat and taking the temperature of a patient may foretell with certainty an impending crisis in the patient's physical welfare. A temperature of 103 and a corresponding quickening of the pulse-beat means that the patient is in danger and that the cause of that danger must be removed, or sooner or later serious results may ensue. Let me tell you that alternating periods of 100 per cent and 2 per cent money in Wall Street are just as certain indications of a deranged financial system as is the register of 103° in a clinical thermometer a sure indication of physical disorder. Serious results may not immediately follow in either

case, but if the evidences of derangement repeatedly recur, it is only a question of time when, in both instances, unfortunate results will follow.

The physician who finds the pulse-beat too rapid does not necessarily locate the difficulty in the wrist of the patient, for the reason that it is there he finds the evidence that something is wrong; nor would there be more logic in saying that because we have seen periods of 100 per cent money in Wall Street, the seat of the difficulty must be in Wall Street and the remedy should be applied there. The trouble is not with Wall Street; it is fundamental and is inherently related to our unscientific currency laws.

Periods of excessively high rates for money, recurring seasons of stringency following each demand for funds with which to move the crops, other periods of superabundance, of gorged bank vaults and interest rates falling to a point where the return on a loan is hardly worth the expense of making it, — all these things are significant signs of our imperfect financial system. They point, I believe, with absolute certainty toward organic weakness. The fundamental causes which lead at one time to manifestations of high rates and at another to abnormally low rates, that bring periods of stringency followed almost in a day by periods in

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which funds accumulate more rapidly than they can be wisely employed, — the fundamental causes of such changes are dangerous to permanent prosperity. Just as surely as temperature and pulse-beat may become physical danger signals that the wise man should promptly recognize, just so surely we are receiving periodical warnings in the abnormal register of the pulse of Wall Street money-rates, and in the alternating periods of currency stringency and currency redundancy that may be observed at all the money centres.

If we sit smugly by and say that we are satisfied with the measure of prosperity which we are having, and that we think we shall go on very well with things as they are, then sooner or later we shall come to another period that is not satisfactory. We shall come to another period such as has preceded the enactment of most of the important existing financial legislation. Then we are likely, in great haste and with little consideration, to enact legislation which might better be undertaken before the necessity for it becomes painfully evident.

I believe there is the gravest need for legislation which will provide a scientific system of bank-note currency. I believe too that there is no group of men upon which the responsibility for such legislation lies so

heavily as it does upon the members of the New York State Bankers' Association. Congress is not alone to blame if we are lacking in wise currency laws. If financial leaders are utterly oblivious to the necessity for such laws, if bankers, even after they come to the conclusion that legislation is desirable, are unable to reach an agreement as to what sort of legislation is expedient, it is with poor grace that those financial leaders and those bankers blame Congress for failing to enact wise laws.

There is no association of bankers upon whom the responsibility for a clear understanding of the currency problem falls with so much force as it does upon the bankers of New York. The bankers of New York will hardly deny that the financial centre of the country is there. With leadership come grave responsibilities.

New York is the financial centre. New York bankers ought to accept the financial leadership. They ought to have well-considered opinions upon the currency. The financial portion of the whole country looks to New York for this leadership. For New York bankers to say that anything practical in the way of suggestions must, for political reasons, come from some other quarter, is but a cheap way of escaping responsibility. For the financial leaders of New York to

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say that the popular prejudice against Wall Street is so great as to prevent their voices being effectively heard, and that it is useless for them to devote thought to a problem the solution of which must, because of political exigencies, come from some other place, is to offer but lame excuses for failure to do their duty.

I believe there is little force in these protestations behind which New York bankers modestly step into the background. Their proper place is at the front in a currency discussion. Financial leaders should be leaders in fact; although in truth not a few of them have given less earnest consideration to the great national question of the currency than they have to any one of dozens of corporate underwritings or reorganizations.

I believe the country is ready to accept the leadership of New York if New York will accept the responsibilities of her position. If New York bankers will study the currency problem until they are ready to bring forth a plan which they believe is the best for the whole country, — a plan which is not narrow and provincial, a plan free from personal and local bias, — then the judgment of New York bankers will be received by the rest of the country with respect and consideration.

If the officers of the institutions repre-

sented in the membership of the New York State Bankers' Association will reach substantial agreement in regard to what constitutes the currency problem, agreement as to what are the principles underlying its correct solution, and what forms of legislative enactment will be wise from the point of view of the whole country, I am perfectly confident that the whole country will soon come into hearty accord with that opinion. The principal reason that New York has been unable to influence the public opinion of the country on financial matters has been that New York bankers have had no well-considered conclusions. They have not accepted the responsibilities of leadership. They have failed to give the subject the consideration it merits. They have reached no agreement in regard to the course which ought to be followed.

The country believes that when there is real need for legislation that need will be recognized by the leaders of finance. If the bankers of New York would once clearly recognize the need, that fact alone would go a long way toward making the country see the necessity for action. New York bankers may think it is easier to temporize, but the country looks to New York in this instance to accept the responsibilities of leadership. It looks to New York to recognize the neces-

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sity for legislation if urgency exists. It expects New York bankers with unanimity to point out a course that, with the welfare of the whole country in mind, will be the wisest to follow.

If financial disaster should ever come because we have failed to enact proper legislation, the blame for that disaster will lie against the bankers of New York more directly than against any other group of people. The bankers of New York, more than any others, have a duty imposed upon them, the duty of leadership. They cannot escape the responsibilities of leadership. The country will some day understand that the financial leaders have thus far failed to measure up to this responsibility. If that failure ever stands out clearly against a background of financial disturbance, the fact will not be helpful to New York's pre-eminence.

To my mind we are in a lethargy of success. We hear pæans of prosperity sweetly sung on every side. Unexampled totals mark the measure of every phase of industrial and commercial life. We have engaged in expenditures of capital on a scale so vast that it makes the financial operations of other days seem petty by comparison. Labor was never before so fully or so profitably employed. Business was never more active. And so, some of us say, there surely can be

nothing wrong with a situation that gives such evidence of health and growth.

Truly it is a magnificent organization of business which we have. With the health and vigor of the business condition impressed upon us, it is difficult to understand that an occasional irregularity of the financial pulse-beat may be an important warning. The pulse-beat of abnormal money-rates in Wall Street, rates that are abnormally low or abnormally high, have recurred and passed, and it is easy to believe that they mean nothing serious. It is, perhaps, hard to believe that a brief period of overflowing bank vaults might in the end work toward serious disorganization of this magnificent fabric of business. We see undue accumulations of currency at the financial centres; we see banks that must pay interest on these swollen deposits reloan the money with nervous haste at any return, no matter how low; we know that funds in this way may some day become tied up so that there may be the greatest difficulty in liquidating the loans to meet an unexpected demand, but it does not seem to come with much force to the average banker that the legitimate result of such a situation may be financial disaster.

Even though a clinical thermometer registers a degree or so too high a temperature, a strong man may think it a matter which

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in his strength he may disregard, and so the business community seems to rest in the security of an all-pervading prosperity while the vast financial work of the day continues to be performed by machinery devised two score years ago to fit a then abnormal situation. The free and normal development of our banking system has been prevented by prohibitions which had their birth in the financial exigencies of the Civil War. In every other field of activity we have recognized that new conditions made new machinery desirable, but the machinery of banking has not been permitted to develop so as to keep pace with the growth of the work it has to do.

With the increase in the volume of business done in the United States, and with the growth of the value of the annual product of soil and factories, the margin between the maximum and minimum need for currency has widened. That margin between the greatest amount of currency likely to be needed at one period and the least amount likely to be needed at another, has probably doubled in the last ten or fifteen years as a result of our development.

At the present time there is reason for believing that the country at certain seasons requires \$150,000,000 more currency to transact its business than is required at other

seasons. Now remember I am talking of currency, not of credit. To meet this fluctuating demand for currency there is absolutely no provision in our laws. Our bank notes increase or decrease in volume as a result of the fluctuation in the market price of Government bonds, and there is practically no relation between that price and the current demand for currency. Our banks are permitted to give freely to their customers credits in the shape of deposits, but when a customer wants to convert that credit into the form of a circulating note, he can only be accommodated by taking from the vaults of the bank its reserve money.

I believe the first principle to recognize is that there is not an essential difference between a bank credit in the form of a deposit and a bank credit in the form of currency. Certain safeguards must be thrown around a circulating note that are not required for the protection of a deposit, but with that exception in view, this principle stands, I believe, as perhaps the most important one to recognize in a currency discussion, — that there is not an essential difference between a bank note and a bank deposit, and that the customer of a bank ought, under satisfactory safeguards, to be able to convert one into the other at will.

One other principle that has been fatally

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lost sight of in half the discussions of the currency, is the principle that adequate redemption facilities are a certain bar to an over-issue of circulating notes. People talk of the country being flooded with an asset currency. With adequate redemption facilities such a thing is inconceivable. Let any student of the currency question keep in mind the idea of providing absolutely adequate redemption facilities, so that a bank note will never stay in circulation a day beyond the time when a bank credit is no longer preferred in that form rather than in the form of a deposit, and half the difficulties of the inquiry are at once cleared away.

This is, of course, no place for a thorough discussion of the currency question. I have no plan to propose. The one thing that I want to urge is the importance of providing a scientific bank-note currency if we wish an indefinite continuance of prosperity, and further to emphasize the responsibility which rests particularly upon the bankers of New York in presenting a plan for such a currency. The plan may take one of half a dozen forms. Perhaps the best one, were it politically possible, would be the creation of a Government bank having the power of issue, whose sole business would be in its relations with other banks and whose chief operations would be the re-discounting for

other banks. I do not mean that any existing institution could be metamorphosed into such a central bank. It would have to be freshly organized from the beginning, its control would need to be largely in the hands of the Government, and its ownership widely distributed among banking interests throughout the country. The principles of a scientific asset currency could well be worked out through the medium of such an institution, as the experience of Germany eloquently testifies, but they can undoubtedly be worked out in some other way.

The fear which men so commonly have of giving a larger power of note-issue to small national banks will largely disappear when the opponents of asset currency have once fairly in their minds what the result will be of providing adequate redemption facilities. That a plan can be devised which will safely permit every national bank to issue a certain amount of notes not secured by Government bonds, I have no doubt, and I am inclined to think that it is along that line that legislation is most likely to be obtained, although perhaps it is not the ideal solution.

The thing of which I am absolutely certain, however, is that a solution of the whole problem could be attained wisely, promptly, and easily if bankers would give to a consideration of the subject anything like the

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attention which it merits. And again I say, the responsibility is on the bankers of New York. You cannot hide behind Congress to avoid the responsibility. You cannot shift the responsibility to the shoulders of your associates in the West. You are the financial leaders, and the responsibility of leadership is yours.

BANKING DEVELOPMENTS

An address delivered before the Illinois Bankers' Association, at the Louisiana Purchase Exposition, St. Louis, October, 1904.

It has seemed to me especially fitting to attempt to review, in the briefest manner, a few of the figures illustrative of our material progress, and to try to draw some deductions from them. In order to get a setting for our comparisons, let us for a moment glance back at conditions during the last ten years. We will remember that we were, ten years ago, just emerging from the depression of the panic year of 1893, and that we were facing a great political and economic conflict over the silver issue. The whole world was filled with distrust in regard to the future of our standard of value, and the chilling shadow of that distrust was falling heavily on our commerce and finances.

Later came the definite verdict of the people, declaring for a sound currency, and following that began an unexampled era of prosperity such as no other country, in any age, has ever known. The expansion went beyond all the experiences of men of affairs. We had learned lessons of economy, of care-

ful management, and of cheap production in the depression which followed the panic of 1893, and now we suddenly awakened to the fact that we had obtained a grasp on the markets of the world. Our exports of manufactures ran up from \$183,000,000 to \$433,000,000 in half a dozen years, and this increase of \$250,000,000 in the annual average of our exports of manufactured products made Europe stand aghast at what was denominated the American commercial invasion. Our general foreign trade balance assumed such totals as to cause economists seriously to consider what was to happen to the rest of the industrial world if this march of progress went on. In half a dozen years we piled up against other countries a trade balance in our favor of more than \$2,600,000,000, — a trade balance far larger than the net trade balance had been from the beginning of our government down to the time when this remarkable expansion started.

And then we made mistakes. We were in the midst of a prosperity so great that it went beyond the experience of the most experienced. With the flood-tide of this prosperity covering all of the old landmarks, it was small wonder that there were blunders made in steering the craft of business. We ran into excesses, extravagances, and miscalculations. Capital made mistakes of over-

capitalization; labor made mistakes of arbitrary and unwise demands; everybody made mistakes of extravagance. Producers made errors in estimating the demand, and made miscalculations in the multiplication of their productive capacity. There was a surplus demand above our productive capacity, and that demand went knocking at the door of first one factory, then another and another, producing the impression on the mind of each individual manufacturer that the demand legitimately pressing upon him warranted him in doubling his plant; and when every one started to double his productive capacity, capacity soon ran ahead of demand.

The railroads were caught in much the same situation. They made huge engagements for expenditures which they felt were necessary in order to handle the traffic that was pressing on them. For the time being, far too great a portion of liquid capital was absorbed into fixed forms of investment. Directly and indirectly, bank credits which were payable on demand were, in a dangerous proportion, converted into new manufacturing plants and into new railroads, tracks, equipment, and terminals. Bank reserves fell until they were a danger signal pointing with certainty to the need for more conservative administration. Banks applied the financial brakes by higher and higher inter-

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est rates. Stock-market values, unduly inflated by the spirit of optimism which was all-pervading, began to melt.

Just two years ago this turn came. The decline which followed cut a billion dollars off the value of securities in a few months. The vast readjustment which such a change in values made necessary was accomplished, however, without panic, without great failures, and with few of those disasters which usually are the features of such a period. The way the country met the situation stands to-day as the most striking monument we have yet reared to our increasing wealth and financial strength.

We have grown used to cycles in business; to regular periods of expansion followed by years of depression. These cycles have been of varying length, but, generally speaking, a decade would measure the time from one upturn to the next. Men of experience, therefore, expected that the depression which started two years ago would have to run through something like the usual course, and would last at least for three or four years before we had again learned lessons of economy and had settled down to a solid basis upon which to rear a new structure of prosperity. I have said that the experience of the most experienced had been set at naught by the rising tide that

had marked the last great wave. Experience proved a poor guide in measuring the upturn; will it likewise be at fault in measuring the period of depression? Is the depression to be of shorter duration than in former business cycles? Have we already reached, after two years' downgrade, a level from which we can again start up to new heights of business expansion? I cannot answer these questions, but I want to present a few statistics that I believe have some bearing upon them.

What I have now to say has absolutely no application to the immediate course of the stock market. Whether stocks will be higher or lower to-morrow, next week, or next month, I do not know, nor am I particularly concerned. The fluctuations which mark the little surface waves are not matters of such moment. It has seemed to me, however, that it will be interesting, in view of the present condition of business affairs, and appropriate, considering the place which has been chosen for this meeting, to make some comparison of business statistics to-day with conditions of ten years ago, and note what our position will be ten years hence, if the material development of the United States is to go on at approximately the same rate of progress which has marked the development of the last ten years. I believe it is fair to

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assume that, generally speaking, something like that rate of progress will be maintained. Certainly the outlook to-day, with currency uncertainty given way to a securely fixed standard of value, with a sound and satisfactory banking position, and with no left-over panic consequences to be reckoned with, as was the case ten years ago — certainly such a situation offers reason for the presumption that we are in as favorable a position for development in the next ten years' period as we were at the beginning of the last.

Ten years ago we had a population of sixty-eight millions; to-day it is eighty-two millions; and ten years hence, with this ratio of increase, the population of the United States will be ninety-eight millions. We shall in the next ten years add to our number a population equal to one-half that of France. Such growth in numbers, matched to our wealth of resources, makes the sort of material out of which to shape an entirely new level of statistics marking the country's material progress.

The total wealth of the United States, according to the best estimates which we have, has risen in ten years from \$75,000,000,000 to \$106,000,000,000. Ten years more of increase will make the wealth of this country \$140,000,000,000. When we

remember that such a total will compare with the total of \$42,000,000,000 in 1880, the accumulation is seen to be at a rate almost incredible.

Our money stock has increased in ten years from \$1,600,000,000 to more than \$2,500,000,000, and every dollar of it is sound, and every dollar of it is on a parity with gold. The actual gold stock itself increased in that period \$301,000,000. If the money stock increases in the next ten years in the same amount, we shall have \$3,400,000,000 of circulation at the end of that period. Incidentally, it is interesting to note that national bank-note circulation in the last ten years has risen from \$172,000,000 to \$411,000,000, and one might stop to wonder, if this rate of increase is to go on, where the Government bonds are to come from in the next ten years to provide for a further increase of national-bank circulation of \$250,000,000 or \$300,000,000. Such inquiry points inevitably to the necessity of some change in our national banking laws in the due course of time.

National-bank deposits in ten years have doubled, going up from \$1,600,000,000 to \$3,300,000,000. State-bank deposits in that time have trebled, increasing from about \$660,000,000 to \$1,900,000,000. A careful estimate of the total bank deposits in

the United States to-day — national, state, savings banks, and trust companies — brings them up to a grand total of \$10,000,000,000, and that compares with a total ten years ago of \$4,600,000,000. The increase has been well over double. Will it double again, and shall we have \$20,000,000,000 deposits in 1914? If we only make the same actual gain, we shall have over \$15,000,000,000; and, barring any unexpected interference with our expansion, I believe that that is a conservative figure and inside the probabilities. Take the case of the institutions that each of you represents. Do you not anticipate as much growth in the next ten years as you have had in the last? If you do, and if those anticipations are fulfilled, and the increase is general, the total of banking resources at the end of another decade must certainly be an astounding one. Your own banks in Illinois have far outstripped the average of the country. The total deposits of national and state banks in Illinois have increased in ten years from \$213,000,000 to \$572,000,000. Why should they not make similar gain in the next ten years and Illinois deposits stand at \$800,000,000?

In ten years we have seen railroad gross earnings increase from \$1,200,000,000 to \$1,900,000,000. With only an equal actual increase, we shall have railroad earnings of

\$2,600,000,000 ten years from now; while, if the percentage of increase of the last decade were to be maintained, the figures would reach \$3,000,000,000. The lower total is the fairer presumption. With gross earnings reaching such a figure, however, with constantly improving methods of administration, and with more perfect roadbeds and equipment, we may expect to see steadily increasing economy of operation. Is it not fair to presume, then, that these vast gross earnings, coupled with a decreasing ratio of expenses, will most certainly provide for an increasingly satisfactory return upon railroad investments?

I will not weary you with too many statistics. If you are interested in pursuing such a line of inquiry, get the *Monthly Summary* of the Bureau of Statistics from Washington. In its way it is as great an exposition of statistics as is this World's Fair an exposition of material things, and it will well repay study. You will see from the figures which you will find there, for instance, that our foreign trade, which ten years ago footed \$1,500,000,000, was this year \$2,450,000,000. Our exports of agricultural products may not increase much from present figures, but it is safe to say that our increasing command of foreign markets for our manufactures will perhaps bring the total of our foreign trade

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to \$3,000,000,000 in the next decade. You will see that national-bank loans and discounts, which were under \$2,000,000,000 ten years ago, are now \$3,725,000,000. An equal increase would carry us above, \$4,500,000,000 in national-bank loans ten years hence. Let us hope those loans will not increase with unconservative rapidity. Bank clearings of the country have increased two and one-half times in ten years. If progress were to continue at this rate, we should show bank clearings of more than \$200,000,000,000 at the end of the next ten years. You will find that the total mineral production of the United States has increased in value from \$650,000,000 to double that figure. If there is reason to suppose that this increase will continue, we shall yet make a record of \$2,000,000,000 as the annual product of our mines. Our production of steel has doubled in ten years. The value of the product of our cotton mills increased 52 per cent. The volume of business, as measured by the receipts of the Post-Office Department, shows almost 100 per cent increase, those receipts coming up from \$75,000,000 in 1894 to \$144,000,000 for the present fiscal year.

These illustrations might be indefinitely continued, but I have given enough to point out the one conclusion which I wish to em-

phasize, and that is that you men who administer the great banking resources of the State of Illinois need to keep constantly before you some of these broad statistics of our material progress. Their study cannot help but be encouraging and useful. They must lead to the conclusion that, in the combination of population and natural resources, we stand, as a country, absolutely unrivalled, and with nothing to balk our progress but our own mistakes.

If we look abroad, we see England struggling under most adverse conditions, a great portion of her industrial population actually underfed, and a million people receiving aid under her poor-laws. We see in France a nation grown rich by thrift, a nation where economy has become a disease, and in the growth of it all initiative for new accomplishments has been lost. In Italy we see a great industrial awakening, but conditions still so hard that a large percentage of our 800,000 of immigrants annually come from that country. In Germany we find a barren land yielding from the fields most meagrely and from the mines hardly at all, but with a population whose energy, intelligence, and education have built out of most discouraging conditions a vast industrial organization which is our one real competitor in the markets of the world. If we will accept from

the Germans something of their scientific methods, their carefulness, their thoroughness, and their willingness for hard work, and bring such qualities to bear upon our own resources, the figures which I have been quoting as possibilities of the future will yet look small.

These statements are generalities intended to apply only over considerable periods. That the next ten years are to see to some extent a repetition of the development of the last ten is, I think, a fair presumption. Whether that upward movement has already started, or whether it is to start next month or next year, I do not profess to know, and nothing that I have said should be taken as indicating the fixing of a definite date in regard to returning prosperity. Business to-day is unsatisfactory in many respects. The memories and sore spots which the declines of the last two years have left will make many people slow in accepting the conclusion that we are ready for another great commercial advance. We are always in danger of overdoing, and we may for the moment, perhaps, have already made that error, for prices have shown most substantial recovery — a recovery certainly in advance of what would be warranted by the present actual conditions. It is safe to say, however, that we are to-day in a sound finan-

cial position. Bank reserves are ample; at least national-bank reserves are. Bank loans and discounts are not of a character to offer grounds for any general criticism. We have probably fully paid off the foreign indebtedness in the shape of finance bills which two or three years ago had reached large totals. We are in a position to command international credits, and to bring gold to strengthen our reserves, if we should need it. We have a corn crop that is worth \$1,000,000,000, a cotton crop worth \$600,000,000, and a wheat crop worth \$412,000,000. The value of these three crops alone this year is \$2,012,000,000, which compares with the value of these same crops ten years ago of \$1,067,000,000.

We have learned some valuable lessons in finance, and the memory of the last two years, reminding us of the results of the mistakes made at the height of the boom period, is still clearly enough in our minds to warrant the belief that we shall administer our financial affairs with a fair degree of common-sense for some time to come. We have learned that there is not a new political economy, but that, in spite of our vast resources, our growing wealth, and our recuperative power, we must obey the same old sound laws of finance and commerce that have long ruled.

I am convinced that the possibilities of

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another great business expansion are at hand, but connected with those great possibilities are great responsibilities. Those responsibilities are largely on our shoulders. The bankers of this country will, in the wisdom of the administration of their trust, or in their lack of wisdom, have great influence on the beginning, the extent, and the length of this next period of prosperity.

I cannot too strongly emphasize my belief in the importance of having our banks and financial interests prepared to play their proper part in the return of prosperity and the further development of business. We need banking laws that are wise and banking administration that is wise. Encouragement to a wild speculative boom, at this time, when improvement is justified more by hopes and possibilities than by immediate actual conditions, might set the whole period of recovery back a month, six months, a year. A great speculative boom now is not what is needed. It is indeed one of the special dangers. If bankers in the great centres are not conservative in the inducements they hold out to secure deposits, if they accumulate great stocks of money which will loan at such low rates as to encourage unduly a speculative spirit, they will strike a blow at this returning prosperity which may long delay its coming.

There is another danger in the banking situation. During the height of the last commercial expansion people so lost their heads that they excused extravagant and foolish actions by saying that there is a new political economy, that the old laws no longer apply under the new conditions. They were wrong, lamentably wrong. And to-day a thing for bankers of this country to remember is that there have been discovered no new laws of finance which make banking without reserves safe and conservative. A bank holding money repayable on demand must keep a fair proportion of that money in its vaults. The experience of all financial history points to that necessity. Whenever that law has been violated, disaster has ultimately followed. Do not permit yourselves to believe that there has been any new discovery in finance which will safely permit banking without reserves.

I believe that the conditions are again favorable to a return of prosperity. I believe it is time for optimism. So long as we remember in humbleness our mistakes and hold close to a proper conservatism, the course of financial events seems likely to follow only one general direction, and that is toward improvement, toward expanding business, and toward better times.

THE LESSONS OF OUR WAR LOAN

The Forum, 1898; written when the author was Assistant Secretary of the Treasury.

THE United States has floated a \$200,000,000 loan at the lowest rate of interest at which a nation ever disposed of its obligations in time of war. It has received subscriptions of \$7 for every \$1 of bonds offered the public, or, roundly, \$1,400,000,000 for the \$200,000,000 loan. Under the provisions of the law as passed by Congress, every subscription made by a syndicate, corporation, or association was rejected; Congress having taken the broad ground that individuals should have preference. Every subscriber asking for more than \$4,500 received no portion of his subscription, as the entire loan was absorbed by individual offers for smaller amounts; the allotment being made under the provisions of the law so that the humble investors had preference over the richer ones. Half of the loan, more than \$100,000,000, has gone to 230,000 people, each of whom subscribed for \$500 or less. The number of persons who applied for the bonds reached 320,000; and if they were

mustered into military ranks they would outnumber by almost 100,000 our army of regulars and volunteers enlisted for the Spanish-American War. Standing at dress, side by side, they would form a line one hundred and twenty miles long, — a line that would reach clear across Cuba at its broadest point and half-way back, or from Washington to Philadelphia. Had all these investors presented their subscriptions with the currency attached, it would have required three times the cash held in the vaults of the thirty-six hundred national banks of the country. Some idea of the enormous total of \$1,400,000,000 subscribed by these 320,000 persons may be gained by a comparison with the amount of money in circulation in the United States on August 1, 1898. On that date the money of all kinds in circulation aggregated \$1,809,198,000. If the United States had accepted in currency all the subscriptions made, the Treasury would have absorbed seven-ninths of all the money in circulation.

More than \$100,000,000 in cash was turned into the Treasury as the subscriptions were made, and before the delivery of bonds was begun. The remaining \$100,000,000 is being gathered in as fast as the augmented machinery of the Treasury can collect it. The handling of this vast sum has been so

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careful that rates of interest in the New York money market, after the books were closed and the bonds began to be issued, were as low as $1\frac{1}{2}$ per cent, *i.e.*, materially lower than before the loan was offered. The whole transaction was accomplished with scarcely a perceptible movement at the money centres, and absolutely without creating the smallest degree of stringency or congestion.

Such illustrations as these give some indication of the success of this first experiment of ours with a really popular loan. It has been a phenomenal success; and it presents a good many new features in financial affairs. It furnishes the only real test we have ever had of a popular subscription. It exhibits the credit of the United States in the most favorable light in which it has ever been seen. It shows the investing strength of the people to be greater than the most optimistic would have supposed, and our gain in financial *prestige* must be regarded as one of the foremost results of the war.

From the time when Congress, with hardly a word of debate, appropriated \$50,000,000 for the national defence, to the actual beginning of hostilities, scarcely a day passed without some event which made it apparent that the Government revenues must be augmented by loan. The Bill to provide ways and means to meet war expenditures

was a measure which showed far more courage than legislators are apt to evince when such a crisis comes. It was a measure that laid the tax-collector's hand on every business — in fact upon every citizen — and was designed to draw into the Treasury an enormous additional revenue. The operation of a revenue law is too slow, however, for such exigencies as war; and, with expenses reaching an average of \$1,250,000 a day, the necessity for an issue of bonds was plain. When it became known that Congress contemplated fixing the rate of interest at 3 per cent there was a quiet protest from some of the great financiers. Three per cent, they declared, was too low. They pointed to the rate at which former bond issues had been made in time of peace. They called attention to the fact that the 4 per cent bonds of 1925 were selling as low as $117\frac{1}{4}$, a basis which would net the investor nearly $3\frac{1}{4}$ per cent. They asked why heavy subscriptions to a short-term bond at 3 per cent should be expected, when one could go into the market and buy a bond of exactly as good character, and with a far longer term to run, on a basis that would net $3\frac{1}{4}$ per cent. Not a few of the financial leaders were sore in spirit over the criticism that had followed them after the last Government bond sale. They felt that they had come forward then at a time

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when the Treasury was in great peril, and had furnished money that was badly needed, and, in addition to furnishing money, had undertaken a most expensive contract to prevent gold exports. Their profits had been but a fraction of what the public imagined them to be; and the execrations that had been heaped upon them had left little desire at this time to turn in and, from purely patriotic motives, aid the Treasury in its financing.

The Secretary of the Treasury saw some of the leading financiers who held these views. He met their objections so completely that his suggestion, that the great financial interests should show to the country a broad-spirited patriotism such as would quiet the host of critics, was received with surprising good-will. His suggestion was one that might at first view seem almost quixotic, considering the rate at which Government bonds were then selling. It was that some of the important financial interests should come together and guarantee, without profit to themselves, the absolute success of the loan, — that they should agree to take all or any part that should be unsubscribed by the people. This underwriting of \$200,000,000 of securities at a price substantially higher than that at which similar securities were selling in the market was to be done

solely for the good that would follow such an exhibition of disinterested and patriotic financiering.

The result of Secretary Gage's suggestions was, that on the morning of the day the subscription opened two syndicate bids were received: one from the National City Bank, Vermilye & Co., and the Central Trust Company, and the other from a syndicate headed by Mr. J. Pierpont Morgan. Each of these syndicates agreed to take all or any part of the issue not taken by the public. That guarantee put spirit into the loan from the first moment. People said: "If the New York bankers stand ready to take the whole loan twice over, it must be a good thing to have."

There were two reasons why the subscription should be an assured success, in spite of the fact that shortly before it opened Government bonds were selling on a $3\frac{1}{4}$ per cent basis. One was that, although there were marked quotations for the 4 per cent bonds on that basis, it could not be called a settled or fairly established market price. A few bonds could no doubt have been bought at that price. Any attempt to purchase a large block would have sharply advanced the quotation, although it is probably equally true that a large block thrown upon the market would have depressed the price. The reason

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why it was certain that a market could be found for the whole issue on a 3 per cent basis was in the use which could be made of the bonds by national banks as a basis for new circulation, or to replace the old 4's and 5's which banks had on deposit to secure their circulating notes.

The superiority from the standpoint of profit of the new 3-per-cents over the 4-percents of 1925 as a basis for national-bank circulation is shown by the following table:

TYPICAL ILLUSTRATION OF \$100,000
INVESTMENT

	3's of 1908-18 at par		4's of 1925 at 127½ @ 128	
Capital invested . . .	\$100,000.00		\$100,000.00	
Par value of bonds purchased	100,000.00		78,354.55	
Circulation	90,000.00		70,519.09	
Receipts:				
Interest on circulation (6 per cent)	5,400.00		4,231.15	
Interest on bonds deposited	3,000.00		3,134.18	
Gross receipts		\$8,400.00		\$7,365.33
Deductions:				
Tax	900.00		900.00	
Expenses	62.50		62.50	
Sinking fund			337.67	
Total deductions		962.50		1,300.17
Net receipts		\$7,437.50		\$6,065.16
Interest on capital invested (6 per cent) . .		6,000.00		6,000.00
Profit on circulation:				
Amount		\$1,437.50		\$65.16
Per cent	1.437		0.065	

Advantage of 3's at par over 4's at 127½ @ 128, August 1, 1898, 1.372 per cent.

The Government Actuary, before the books of the loan were opened, had figured for the Secretary that the new 3 per cent bonds at par would be equivalent, as a basis for national-bank circulation, to the 4-percents of 1925, if the latter had been quoted at so low a figure as 111. At that time the actual quotations of the 4-percents of 1925 ranged from 120 to 123.

The 3-percents of 1908-18 purchased at par, August 1, 1898, as security for circulation of bank notes, will yield a profit of 1.437 per cent. The 4's of 1925, in order to yield the same profit, would need to be purchased at $110\frac{1}{2}$; whereas they were quoted August 1, 1898, at the high rate of $127\frac{1}{4}$ @ 128.

Congress introduced a novel element into Government financiering when it provided that "in allotting said bonds the several subscriptions of individuals shall be first accepted, and the subscriptions for the lowest amounts shall be first allotted."

This latter provision brought a new element of chance into the loan, such as had never been in a bond issue before. No one could tell just where the line would be drawn below which all individual subscriptions would be filled in full, and above which no subscriptions would receive allotments. It was evident that the Treasury could not ask full payment to accompany the subscrip-

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tions, because of the impossibility of saying whether an allotment would be made to a subscriber. It was plain, too, that the plan under which the previous bond issue had been regulated, permitting bids to be made without any deposit of earnest money, would never do. A medium was struck. It was decided that by no chance could the *bona fide* subscriptions of \$500 and less absorb the total amount. Therefore announcement was made that all subscribers for \$500 or less should make full payment; and the Department promised that an allotment of bonds would be absolutely made on every such subscription. Those who subscribed for more than \$500 were required to deposit 2 per cent thereof to insure the good faith of the application. Allotments in this class were to be made inversely to the size of the subscription. The most sanguine friends of the popular loan idea hardly anticipated that the subscriptions for \$500 and less would reach an aggregate of over \$30,000,000 or \$40,000,000; and many good judges placed the limit well below those figures. As a matter of fact, the subscriptions for \$500 and less reached an aggregate of a little over \$101,000,000.

It was evident soon after the books of the loan were opened that persons who wished blocks of the bonds were getting individuals

to subscribe in their interest. The Treasury Department immediately interposed such obstacles as it could command in the way of such plans. In every case where blocks of subscriptions came in accompanied by powers of attorney authorizing banks or any person or interest other than the subscriber to receive the bonds, the subscription was held in suspense until the bank or person sending in such blocks of subscriptions made answer unequivocally as to whether or not the subscriptions were *bona fide* and solely in the interest of the persons signing the subscription blanks, and whether the bank or any person other than the subscriber had an ulterior interest in the subscription. More than \$40,000,000 of subscriptions were thus suspended, and the persons sending them were catechised as to their *bona fide* character. It was, of course, quite impossible for the Treasury to organize itself into a trial court and take evidence. The Department was forced to accept the statements made by the subscribers, although it used with good effect the machinery of the Secret Service in verifying such statements. Subscriptions representing millions were returned to the senders, who frankly admitted that they had misunderstood the conditions and wished no improper advantage. It is not claimed that the subscription list was kept

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entirely clean from subscriptions received in the interest of persons other than the subscribers. Undoubtedly false statements were in some cases made, and blocks of bonds secured in a way not within the spirit of the law; but it is a fact that the most strenuous efforts were used at every stage to prevent persons having no real interest in the subscription from subscribing and immediately assigning their interests to some banking institution.

As the subscription advanced, quotations began to be made for the future delivery of the bonds. Trades were made at 102, — 103, — and finally as high as 105 $\frac{1}{8}$. To get the new bonds looked like getting gold dollars at a discount. With standing offers of 3 or 4 per cent premium, it was small wonder that the last days of the subscription saw some phenomenal receipts. On each of the last two days the Department received 25,000 applications. It was not growing patriotism on the part of the humble investors that so increased the mail. It was market quotations showing a substantial premium for bonds that the Government was offering at par.

From the point of view of a popular subscription the loan was in every way an astounding success; but it must not be forgotten that there were elements of specu-

lation as well as of patriotism, that there was a market showing immediate profit for every person who could secure a bond.

The task of handling the loan has been one that few people have comprehended. The action of Congress in providing an issue of bonds of so low a denomination as \$20, in giving preference to individual bidders, and in providing that allotments should be made in an inverse order to the size of the subscriptions upon all individual offers, made an amount of detail such as had been unknown in the Department's previous experience. The provision for payment in five instalments, and the necessity for interest calculations on each one of these partial payments, added vastly to that detail. Indeed, the task at last was one that was clearly the greatest clerical undertaking in which the Government ever engaged in the same length of time.

Congress is always jealous of departmental preparations in advance of legislation; and no actual step could be taken by the Treasury Department to prepare for this issue of bonds until the war measure had passed both the House and the Senate. The final action was taken when the House concurred in the Senate's amendment at noon, Saturday, June 11. At 3:30 that afternoon the copy for the preliminary circulars and

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instruction blanks was in the hands of the public printer. At nine o'clock Monday morning the public printer delivered to the Treasury Department the first instalment of 4,000,000 sheets of printed matter; and the rest followed as rapidly as they could be unloaded from the wagons.

A great force had been engaged in addressing envelopes to contain the subscription papers and circulars of information. In a little over twenty-four hours after the receipt of the first printed copies the mails were carrying these circulars to every bank, national, State, and private, to every postmaster, and to every express-office in the country, while to 24,000 newspapers details were sent, so that they might give information to the people concerning the character of the Government bond, and how subscriptions would be received.

There was in the arrangements every element of popular success. The bonds were issued in a popular cause. They were issued at a time when money was easy and securities were high. They were issued at par; so that there was no calculation to discourage the most inexperienced investor. Any man with \$20 knew that he could invest it, and get a \$20 security back. There was no commission, no premium, no restriction as to the character of the remittance. Subscribers

were permitted to send their money in any form in which credits could be forwarded; and the Treasury received any form of currency of the United States, any kind of bank-check or draft, as well as post-office money-orders, and express money-orders. Could there have been more perfect conditions for a successful popular loan?

The more enthusiastic advocates of a popular loan were particularly pleased with those regulations of the Department which provided for receiving subscriptions at post-offices and remittances by post-office money-orders. It is interesting to note that out of the total subscription only \$728,000 was received through this channel. Posters were hung up and subscription-blanks distributed to over 20,000 express-offices; for it was believed by some that many people who had not banking connections would avail themselves of this easy means of transmitting money. The total receipts in the shape of express money-orders were but \$60,000. There was received through the mails in currency over \$731,000. It was not a rare thing to receive a \$1,000 bill in an unregistered letter. It is a tribute to the excellence of the mail-service that there was no complaint from this vast army of subscribers of the loss of a currency remittance.

As a matter of fact the subscription illus-

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trates wonderfully well how thoroughly educated are the people of the United States in the use of banking instruments. Over \$100,000,000 in checks, drafts, and certificates of deposit were received from subscribers for the \$500 and smaller bonds, while the 2-per-cent deposits on the subscriptions for the larger amounts were wholly in the shape of certified checks. About \$198,500,000 of the \$200,000,000 bonds issued will be paid for by means of bank-paper and certificates of deposit.

Some idea of the detailed work in connection with the issue can be had from some figures of the loan. Subscriptions were received from 320,000 persons. Among these there were 230,000 of individual subscriptions for \$500 or less. The subscription was made up roundly as follows:

Individual subscriptions for \$500 and less	\$101,000,000
Individual subscriptions for amounts larger than \$500	358,350,000
Subscriptions of corporations, as- sociations, etc.	434,650,000
Syndicate subscriptions	500,000,000
Total,	\$1,394,000,000

The loan closed at three o'clock of the afternoon of July 14. In less than three hours every corporation subscription was in the mail with a letter of rejection, and every individual subscription for amounts of \$50,-

ooo and over was also on its return trip with a similar letter. Seven hours after the subscription closed the Department was able to announce quite accurately where the line would be drawn below which all subscriptions would be allotted. When it is remembered that the name of every subscriber had to be inscribed at least twelve times in the complex process of official book-keeping, the collection of remittances, the mailing of notifications of receipt and allotment, the addressing of envelopes, the making of card-indexes, and in the writing of small checks covering the interest from the receipt of the subscription to August 1 (the date when the bonds began carrying their own interest), some idea of the clerical labor involved may be had.

Allotments were made to practically 300,000 successful subscribers. Multiply that by 12, and recollect that every entry of a name had to have an independent verification, and it will be seen that this writing of 3,600,000 names and addresses was a task of no small proportions. But that takes no account of the work in connection with the \$1,200,000,000 subscriptions returned, nor of the vast correspondence resulting from errors in every conceivable form made by subscribers in filling out their blanks and sending their remittances. From the time

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the envelopes were dumped from the mailbags, — a force of twenty people was required to open them, — through all the complicated operations of listing, scheduling, collecting remittances, opening accounts, calculating interest, and, finally, putting up bond and interest-checks and sealing each envelope with five wax seals bearing the imprint of the seal of the Treasury, the work has been performed by a temporary force organized and drilled for this special purpose. The force was employed without regard to Civil-Service rules. Legibility of handwriting and good moral character were the tests imposed. A corps of five hundred clerks has been engaged on the work. For the expenses of the issue, the getting out of circulars, stationery, employing clerical help, engraving and printing bonds, and, finally, paying the express companies for transporting them, Congress has allowed $\frac{1}{10}$ of 1 per cent, — the smallest commission for expenses ever paid by the Government for the floating of any loan.

The sealing of the packages is alone a great task. Five seals are put on each package; and there will be about 300,000 packages; representing a total of about 1,500,000 wax seals. The bonds are delivered by express companies; the Government paying charges, and the companies

being pecuniarily responsible for correct delivery.

The permanent work of the Treasury Department will be materially increased by this issue. The addition of such a great number to the total of outstanding bonds will add enormously to the work of making interest payments; the increase in number being far out of proportion to the increase in the outstanding funded debt, because of the small denominations and the widely scattered holdings. It is just as much clerical work to take care of a fifteen-cent coupon which matures every three months on a \$20 bond as it is to pay the interest on a \$10,000 bond.

The cost of handling a \$20 bond makes it a rather expensive security to the Government. But, when looked upon in the broader sense, these \$20 bonds are the best form of security the Government has ever issued. The great multiplication of bondholders, which has resulted from the manner in which this loan has been popularized, cannot but be an important factor in the national life. If it were a fact, that each of the 300,000 subscribers was a *bona fide* investor who would hold the Government's security as a permanent investment, the influence of such a distribution of Government obligations would certainly be marked and beneficial. It is

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altogether too much to say that all the subscribers to this loan have purchased the bonds with the idea of holding them permanently in their strong-boxes. In any consideration of this phase of the loan, the fact must not be lost sight of that the bonds were quoted at a marked premium during the whole time the loan was in progress, and that the Government was selling a security at par which the purchaser knew he could resell at an immediate profit. Speculation and not permanent investment, therefore, was to a great extent the moving factor. Undoubtedly the issue will be largely consolidated, and many of the bonds will find their way into the hands of the people who will pay the most for them.

As a general proposition, Government bonds are worth most to national banks, as they can use them as a basis for circulation or as security for Government deposits; and that being the case, it naturally follows that a large number of these bonds will find their way into the assets of the national banks. This is no argument against the popular success of the loan, but is merely a factor to be considered in measuring that success.

After every allowance is made, after all the modifying conditions are considered, there still remains the fact that this loan has been a remarkable exhibition of financial

strength, of faith in the Government's securities, and of the disposition of the Government to favor in its financial operations people of small means. In this latter respect the response has been everything that could have been expected. Small investors have shown their readiness to deal directly with the Government, and in great numbers have become purchasers of small amounts of bonds. The nation is stronger because of this distribution of its securities. The people are well satisfied, because of the opportunities that have been offered them. Critics of capital have been robbed of some of their much-used illustrations by the remarkably patriotic action of the great financial interests in guaranteeing the success of the loan; and the whole financial world has been enlightened as to the solidity of our institutions by the object-lesson of a 3 per cent war loan selling in the market at 105 while hostilities were still in progress.

THE TREASURY¹

Scribner's Magazine, 1902.

ASTONISHMENT at the extent and diversity of interests embraced in the Treasury Department must have been one of the first sensations of most Secretaries of the Treasury after taking up the duties of the office. Even if the Secretary had been active in public life, and possessed passing familiarity with the great Department, he would scarcely have clearly comprehended its scope, but if he were a man coming from an active business career, without opportunity for intimate acquaintance with the Treasury, the first few weeks of his official life, it is likely, were marked by daily discoveries of new and entirely unanticipated functions.

The bureaus which are bound together in the Treasury Department are, by all odds, the most diverse, and at the first casual glance it would seem the most unrelated that are to be found under the jurisdiction of any of the cabinet officers. The public thinks of the Treasury Department as the

¹ Since the above was written many of the functions of the Treasury Department have been assumed by the Department of Commerce and Labor.

fiscal division of the Government's executive system. It is a fact, however, that for a good many years probably not less than two-thirds of the time of the Finance Minister has been devoted to problems bearing little or no relation to the strictly fiscal business of the Government. The organization of a Department of Commerce, drawing as it will its principal bureaus from the Treasury Department, will bring needed relief to a cabinet officer who has quite enough to occupy his attention in the administration of affairs closely related to the Government's financial business.

The responsibility for raising the revenues and for their disbursement, now that the totals have come to aggregate more than one thousand million dollars, would seem to be quite enough to lay upon the shoulders of any man, particularly if he must take up those duties without thorough familiarity with their details, as does each new secretary. But in addition to that duty, there is the further responsibility for the solution of the problems of an intricate and diverse currency system. The Secretary, too, occupies indirectly, through the Comptroller of the Currency, a supervisory relation to the whole national banking organization of the country. He is the indirect custodian of \$800,000,000 of gold and silver coin, stored in the Treasury vaults, against gold and silver cer-

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tificates in circulation representing that coin, and, through his subordinate, the Treasurer of the United States, he shares the responsibility for the care of more than two hundred million dollars, representing the cash balance which the Government carries. All the Mint and Assay officers are, through the Director of the Mint, under his control. He directs the operations of a great factory employing 3000 operatives in the printing of money and Government securities, and he must there meet the same problems of organized labor that other great employers have to meet. He is responsible for the collection of commercial statistics, and is fortunate in finding a bureau for that purpose which has a record for the best statistical work done by any of the great Governments. He is at the head of the greatest auditing offices in the world, where every dollar of income and every item of expenditure is checked over with minute exactness, so that at the end of the year it is safe for him to say that the whole billion dollars, the total on both sides of the ledger, has been collected and disbursed with absolute fidelity and legality and without error.

All these functions are naturally related to the management of the fiscal affairs of the Government, but there are many other bureaus that do not apparently bear such

close relation. The Secretary will discover that there are almost as many vessels which would fly his official flag should he come on board as there are ships of war to fire salutes to the Secretary of the Navy. He has large fleets engaged in light-house and coast-survey work, while the revenue-cutter service, in which are many swift and modern vessels, does police duty at every port. He is the final authority in all official judgments relating to the more than five hundred thousand immigrants who land on our shores annually, and he is the responsible executive for carrying out the immigration laws and the Chinese Exclusion Act. He is the official head of the Bureau of Public Health and Marine Hospital Service, which guards our ports from contagious diseases, maintains quarantine service and stations, and a great system of hospitals for disabled seamen. The Government's Secret Service Bureau reports directly to him, and he watches day by day the unfolding of detective stories more interesting than the dime novels of his boyhood days, and there accumulate in his files packages of reports, tied with red tape, more thrilling than the choicest example of yellow-covered literature. Not only is the Secret Service Bureau devoted to the detection of counterfeiting, but its services are called into play in connection with any se-

cret-service work which the other Departments may wish to have done. The Bureau of Standards, to which all questions of weights and measures may be finally referred, is under his direction. No steamship may sail in American waters, nor leave an American port, the boiler of which does not bear the stamp of official inspection by one of his subordinates. He is the responsible head of a Life Saving Service, with 272 stations and a cordon of men patrolling 10,000 miles of coast; of a Light-house system, marking the course of mariners with a chain of lights from Maine away around to Alaska; of a Coast Survey, which has for its business not only the charting of navigable waters, but the scientific investigation of the earth's curvature; of the Architect's Office, which has already constructed and has the care of 400 public buildings, most of them architecturally bad, and which is at the moment engaged in planning and building 149 others, many of which, happily, are showing great architectural improvement.

All these duties are in addition to the fundamental one of collecting the public revenues, a work requiring the maintenance of a corps of 6300 officials at 168 ports of entry, and of a body of internal revenue employees, whose eyes are literally upon every foot of the country's territory.

By no means the least of the manifold duties of this official are those which are connected with the administration of the civil service, for his complete corps numbers 26,000 subordinates. There must be endless appointments, promotions, and changes, and in regard to them all the Secretary of the Treasury is the final authority.

The mere enumeration of such a list of responsibilities carries with it the conviction that the Treasury of the United States must be a wonderfully well organized machine, else it would be impossible for any man to step into the responsibilities of its direction without the change being seriously felt by the entire Treasury organization and the whole country. The Treasury Department is a wonderfully well organized commercial machine. Taking it all in all, I believe there is no organization in the commercial life of this country, look where you will, that is its superior; in many respects one will not find its equal.

We are apt to have none too good an idea of our Government administration, and sometimes, with scant knowledge of facts and conditions, condemn the executive branches of the Government. Naturally the Treasury has come in for its full share of criticism, for it touches every citizen in the tender spot of his pocket-book. For my

own part, however, every day of greater familiarity with the organization was a day of growing admiration for it and of increasing pride that the multitude of affairs entrusted to the head of this Department are administered so intelligently, so promptly, and above all with such absolute integrity and entire devotion to the Government's interests.

Not only does the Treasury Department handle, in the ordinary income and expenditures, cash transactions aggregating more than a billion dollars annually, but it is responsible for the custodianship and the renewal of currency, the printing of paper money, the coinage of specie, and the handling of public securities, and the figures on both sides of the ledger representing the total of all these transactions reach the incomprehensible aggregate of three and a half billions.

Such great sums are handled year after year with absolute integrity, with books that balance to a penny, with cash drawers that are never short, with a trust not betrayed. Whatever opinion home-coming European travellers may have of Treasury methods, after more or less successful attempts to avoid customs regulations, they must, on the whole, give respect to an organization which accepts a responsibility for annual financial transactions aggregating \$3,500,000,000, and

has discharged that responsibility year after year, under one political administration after another, through the vicissitudes of cabinet changes, and presents a clean record having on it no important blot of a betrayal of a trust.

A new Secretary of the Treasury approaching the responsibilities and duties of the great position with an appreciation of their importance must, in years past, have been greatly surprised to find how little time apparently he could devote to the consideration of great national questions, and how much he must give to the small routine details of the administration of the civil service. The 26,000 employees under the direction of the Secretary of the Treasury make the Treasury Department only second to the Post-Office in point of numbers. When the civil-service blanket was only partly drawn over these places, the time which the head of the Department was forced to give to the discussion of appointments, matters in most part of minor consequence so far as the efficiency of administration was concerned, was something that must have discouraged more than one secretary. While such appointments may have been of minor consequence in the actual administration of the Department, they were of great importance if regard was to be had

for maintaining cordial relations with the legislative branch of the Government.

Washington wishes to see evidence of democracy about the Departments. Neither Senator nor Congressman is satisfied to cool his heels in an anteroom for any length of time, nor are political leaders who come to the Capitol on a mission likely to be pleased if the Secretary's engagements are such that an appointment cannot be made without notice or delay. So it came about that a business day in the Secretary's office was, in times past, almost wholly given up, during the periods in which Congress was in session, to the reception of visitors, and most of these visitors came to discuss matters of small consequence to the administration of the Department. The Secretary of this great Department must give heed to innumerable trifles such as would never reach the head of even a comparatively small business organization. Requests come from people of importance, and they must be taken up with the care which the position of such persons demands rather than with any thought of their importance in relation to the administration of departmental affairs.

There is vast improvement in the Treasury Department in this respect compared with former conditions. The Secretary now has power to make but few appointments

outside the classified service, and by recent executive order he may not consider outside recommendations in regard to promotions in the classified service.

Early in the administration of Secretary Gage it was recognized by the Secretary that, if he was to give consideration to the unusual number of important public questions which were pressing, he must be relieved of much of the detail of the administration of the civil service; so he delegated to a committee, consisting of an Assistant Secretary, the Chief Clerk, and the Appointment Clerk, consideration of all questions of civil-service administration affecting the employees in Washington. This plan continues in force. Political considerations have always been absolutely excluded from the deliberations of this committee. I can speak for that positively, and I mean to say that such a statement is literally true. The committee has considered many thousands of promotions and changes in the classified service, and there has been no more discussion of politics than would be found in the consideration of promotions in a great banking or insurance institution. The recommendations of heads of bureaus, the length and character of service, the regularity of attendance, and the results of examinations which are made to cover both academic

and practical qualifications, are the factors taken into consideration. So far is political influence eliminated, indeed so far as promotions governed strictly by merit may be considered the goal in an ideal civil-service administration, I believe the conduct of the civil service in the Treasury Department is to-day practically all that could be asked.

There are many difficult problems in the civil-service administration, and one of the hardest of solution is what to do with superannuated clerks. Congress is distinctly opposed to anything like a civil pension; but, on the other hand, Congressmen and Senators will individually take up the cudgels most vigorously in behalf of any clerk who after years of satisfactory service and regular promotions may be reduced because of declining efficiency. The result is that not infrequently young men on small salaries are doing much better work, and certainly far more in quantity, than are older clerks drawing higher pay. The situation is such at the present time that the most serious obstacles lie in the way of a strictly merit system.

An attempt was made a few years ago to organize in the Treasury Department what was euphoniously called an "Honor Roll," and to reduce to the nine-hundred-dollar-grade clerks who had passed seventy years

of age. Such clerks were to be placed on this "Honor Roll," which was to be, in some respects, a pension roll, although all such clerks were expected to be at their desks regularly. Congress frowned upon the plan, and it has never been put into complete operation. Something of the sort will be absolutely necessary, however, when the full effect of the protection of the present civil-service rules becomes manifest in a constantly increasing ratio of old employees.

Any one who has had experience in the administration of civil service must have come to appreciate in the highest degree the protection and relief which the civil-service rules give to those charged with the responsibility for appointments and promotions; but there are plainly two sides to civil-service reform. The fetich which the civil-service reformer worships, in its practical application, comes very far from providing a system which will build up the best sort of a working staff. That will be more and more plainly evidenced as the result of the present complete classification of the service works out. I shall be surprised if there are not marked modifications which will give to the head of the Department, always after satisfactory academic tests have been applied, far greater freedom of selection and appointment than exists at present.

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The practical operation of civil-service rules results in taking clerks into the service at only the lowest grades, usually the grades paying \$660 or \$720 a year. It is true the rules permit the appointment of persons to the higher positions; but, as a practical matter, certifications for new appointments are almost always asked for to fill only the lower grades, while vacancies in the higher grades are filled by the promotion of those employees who are personally known to the heads of the bureaus. The result is that the whole service is being fed from a class of people willing to accept these small salaries, whose only known qualifications are very moderate academic achievements. The people taking these examinations seem to be largely those who have been unsuccessful in satisfactorily locating themselves in the business world. They have some education, to be sure, but in a great many cases they lack those qualities which make for commercial success. They have drifted into dissatisfaction with commercial conditions, and are glad to seek a harbor in a routine Government clerkship. Rarely is there found among the class successfully passing these examinations the sort of material which will develop good executive ability. Executive ability is something that is difficult to demonstrate through the medium of a competitive

academic examination. The Civil Service Commission has found no way to measure the personal equation, and the personal equation counts for much more than does the mere fact of certain moderate academic training.

In the last few years there have been in the Treasury Department two unusual opportunities to make comparison of the qualifications of clerks appointed outside of civil-service regulations with those appointed in the regular way. After the breaking out of the Spanish War work in the auditing bureaus of the Department increased so rapidly that a large number of emergency clerkships was created, and Congress specifically provided that these should be filled without reference to civil-service rules. In spite of this special exemption, not one of the places was filled without the candidate first passing a satisfactory academic examination under the direction of the Treasury Department officials. Those charged with the appointments, however, had perfect freedom to weigh the personal equation, in the language of the day "to size up the man," and, while academic qualifications were insisted upon, personal characteristics were given much weight. I believe there is no one intimately familiar with the Treasury Department who will deny that the clerks so appointed are,

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as a body, distinctly superior to those drawn through the regular channels of the civil-service commission.

The other incident was the execution of the great detail connected with the popular issue of \$200,000,000 of Spanish War Loan bonds. The bonds were subscribed for by 325,000 investors. The volume of the work compelled the Department to employ a special corps of 600 clerks, all of whom were engaged without reference to civil-service regulations. There is no question as to the general superiority of the clerks so appointed when compared with the average regular clerks working beside them. They may have lacked some of the experience of the older employees, but their youth and adaptability made them far quicker to grasp the conditions of a new problem, more dexterous in the execution of the work, and distinctly more satisfactory from almost every point of view.

Something less than ideally efficient administration may well be granted, however, in order that the head of the Department may have some relief from Congressional pressure in regard to minor appointments. That has been accomplished and the country is unquestionably the gainer to a great degree, because the Secretary had been given time for the consideration of those questions

which are of vastly more importance than are the routine details of the administration of the personnel.

In this connection a word in regard to political pressure may be of interest. A great deal is heard about the demands of the politicians for places—a great deal more is heard of such demands in the addresses of civil-service reformers than is heard in the office of the Secretary. It may be a surprising statement, but it is an actual fact, that, in the requests for appointments, the claim for political recognition is a comparatively rare one. It is not politics, but sympathy and charity, that moves the average Congressman to visit the Departments and plead for places. In nine cases out of ten, their requests may be debited to pure kindheartedness rather than to political machinations.

Most of the men who have been cartooned into the public mind as typical party spoils-men are, as a matter of fact, modest in their requests and alive to the need for good administration of the service. As a rule, the most imperious requests come from newly elected Congressmen representing unheard-of districts, who have not yet adjusted themselves to the situation, and who believe that the rights and perquisites of a member of Congress have little limit. The best known

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of the great political leaders are not likely to make requests that ought not to be granted, and are generally quick to appreciate good reasons, if any exist, why they cannot have what they ask for. It is an interesting fact that some of the most inconsiderate demands for promotions in classified places come from members of the Senate and House who publicly pose as leaders of the civil-service reform movement, while the most prominent of the political leaders can almost always be counted upon to be reasonable in their demands and to accept cheerfully a situation which prevents their wishes being met.

A notable difference between the position of the Secretary of the Treasury and that of the head of a great business organization is the time which the Secretary must devote to the discussion of public questions with newspaper representatives. No small part of his success will depend upon his adaptability to that new condition, for the view which most of the people of the country will form of his administration will naturally be much colored by the attitude of the newspaper correspondents through whom the public is informed regarding official matters.

Newspaper conditions in Washington are unlike those in other cities. There are innumerable representatives of papers, cover-

ing the whole range of the country, each one of whom serves a constituency of great importance. As a body, the newspaper correspondents of Washington are incomparably superior to the average newspaper representatives in other cities. Many of them have been intelligent observers of public affairs for a generation, and have been the confidants and advisers of many Cabinet officers. There is hardly an important newspaper man in Washington who is not at times the trusted custodian of state secrets, and the relation of these men to public affairs is entirely different from the relation of the average reporter in other cities to the business questions of local interest. It is important that the Secretary of the Treasury recognize this, for the Treasury Department is one of the chief sources of news at the Capital, and that he should learn to meet fairly and frankly the newspaper correspondents. This requires much time, much tact, and a discrimination in determining those who can be fully trusted and kept confidentially informed of the progress of affairs, and those who must be talked to with guarded politeness.

The sacrifice of time is by no means without its recompense. Many a cabinet officer has received quite as good counsel from conservative and experienced newspaper cor-

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respondents as he could get from members of Senate or House. This confidential relation with newspaper representatives is unique, and unless a Secretary of the Treasury has been trained in the official atmosphere of Washington, it is likely to take him some time to recognize it and adjust himself to the condition.

In a most important particular the Treasury Department differs from the Finance Ministries of other countries. Elsewhere the Finance Minister occupies an authoritative relation to legislation affecting income and expenditure. With us, the Government has always gone on with the most happy-go-lucky lack of co-ordination between legislation affecting income and legislation affecting expenditure. The Finance Ministers of other countries draw up a budget, which forms the basis of Parliamentary legislation in financial matters. They make careful estimate of probable Government income and of the demands for the executive administration, and Parliament, as an almost *pro forma* matter, passes legislation affecting taxation which will conform to the proposals in the budget, and limits appropriations within lines which the budget may prescribe.

With us, however, the Secretary of the Treasury is little more than an agent who, without comment, transmits to Congress

from the heads of the various Departments their estimates regarding appropriations. Congress, in turn, does not pay close heed to these estimates, frequently declining to make appropriations asked for, and not infrequently making appropriations which the executive head of the Department has declared are not needed.

With us there is little flexibility on the income side of the great public ledger. The Secretary of the Treasury may make general recommendations regarding the necessities for greater income or the opportunity for decreasing taxation, but Congress does not look to the head of the Treasury Department with much solicitude for advice regarding tax legislation or suggestions concerning conservative limits of appropriations. The sources of our Government income are so intimately bound up with the economic theory of protection that we are likely to formulate our tax laws with little or no regard to the amount of income they will produce, and to make appropriations on as liberal a scale as the income will permit, and the Finance Minister has little if any responsibility either for a cash balance or a Treasury deficit.

Congress is not disposed, either, to give very much heed to Departmental recommendations regarding expenditures.

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For many years, for example, every Secretary of the Treasury, in each of his annual messages to Congress, recommended that no appropriation be made for maintaining certain customs districts which have become commercially obsolete, and which are maintained apparently for no other purpose than to give the Senator or Congressman most concerned an opportunity to recommend a presidential appointment. There are 12 customs districts, which are officered at an expense of \$15,578.14, where the total income from customs in a single year was only \$275.26, and the cost of collection, therefore, reaches \$56.59, for each dollar collected. In spite of repeated recommendations that we accept the changed conditions which have made these old-time customs districts quite deserted by commerce, Congress insists year after year that they shall be maintained, that officers shall be appointed, and the expenses of salaries and office administration appropriated.

One illustration is that of a port equipped with a collector at a salary of \$1800, and separated from a large city and an active customs district by only a river bridged and easily crossed. The total collections in a recent year at this port were twenty cents, but the United States Senator who controlled the appointment insisted, when a

vacancy occurred, that a new appointment of a collector be made, and Congress refused to act upon the many recommendations for the abolition of this and other useless ports. A saving of \$200,000 a year could easily be made without any sacrifice of efficiency in the customs service, but Congress hesitates to give up the privilege of naming the appointees who are to receive in salaries this \$200,000 of useless expenditure.

There are other illustrations of what seems to be almost a spirit of perverseness on the part of Congress in failures to accept recommendations for reductions in expenditures which Treasury officials have for years believed could well be made, while on the other hand it is equally difficult sometimes to secure trifling appropriations for greatly needed requisites. There is an assay office in a large city in the Middle West, for example, where the Government pays out five dollars in salaries for every hundred dollars of gold which is received, but Congress insists on making unasked appropriations for its maintenance. It sometimes seems as if there were settled antagonism in appropriation committees toward the recommendations coming from the heads of departments. Serious recommendations made after thorough study of a subject are not always received in a spirit of confidence by the ap-

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appropriation committees, and the difficulties of executive administration are, in consequence, greatly increased.

Sometimes this apparent spirit of perverseness goes farther and actively puts obstacles in the way of administration. An illustration of that is found in recent efforts to introduce improved methods into the Bureau of Engraving and Printing. The Government printing of currency is done upon the same form of old-fashioned hand-press that was used when the first greenback and the first national bank note were turned out. The process is slow and expensive. The growth of the country created a demand upon the Bureau which it was almost impossible to keep pace with, and so it was decided to put in power presses to print the backs of notes. An expenditure of \$25,000 was made, with results so economical that a saving of the whole cost of the machines was effected in a few months. Tests were made by mixing hand-printed and machine-printed bills and submitting them, unmarked, to numbers of expert money counters; and invariably the machine-printed bills would be selected as the best examples of plate printing.

Labor organizations were opposed to this introduction of power presses, however, and when Congress convened brought active

pressure to bear at the Capital, with the result that riders were tacked upon the appropriation bills prohibiting the expenditure of any appropriation for the maintenance of power presses; and this was done without any communication with the Secretary of the Treasury on the part of either Senate or House committee, without any opportunity for presenting the Treasury's side of the matter, and without any effort to secure information as a basis for intelligent legislation except such as was presented by labor leaders who were not even in the employ of the Government.

The Ways and Means Committee and the Appropriation Committees of Congress take upon themselves the responsibility for adjusting the relation between income and expenditure. A great tariff bill may be framed with little more than nominal reference to the Treasury Department, and legislation formulated which may enormously affect one side or the other of the Treasury accounts without the voice of the Secretary being heard or his advice asked for. Income is provided and expenditures are appropriated, without Congress being advised by the head of the Treasury as to the balance between the two sides of the budget.

A phase of Treasury affairs emphasized

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in the public mind is the relation of the Treasury to the money market. At certain seasons much is to be heard about the cries of Wall Street for Treasury help, and of the relief measures which the Secretary of the Treasury may bring to bear upon an unsatisfactory banking position. An ideal fiscal situation for the Government, President Harrison once said, would be one in which the income each day just equalled the expenditures. In such a situation there would be no problem regarding the relation of the Treasury to the money market. So long as we must work with our present Sub-treasury system, however, founded as it was in ignorance and suspicion of proper banking functions, we must periodically face a situation in which the operations of the Treasury are of great import in the general financial situation. Laws which have been allowed to stand unchanged since Jackson's hatred of the banks was crystallized into statute, prevent the deposits of the receipts from customs anywhere but in the actual vaults of the Treasury or Sub-treasury. The country is in such a position as a great business firm would be whose receipts at times enormously exceeded its expenditures, if it should decide to lock up its daily income in safety deposit vaults, turning all credits into cash and locking up the actual currency just at a time

when there might be a most active demand in the ordinary channels of trade for the currency which would thus be abstracted.

Of course, it is impossible to have such an ideal situation as President Harrison suggested; so long as the laws relating to the Sub-treasury system stand unchanged it is useless to talk about taking the Government out of the banking business. The operations of the Treasury inevitably draw it into the situation, and it becomes one of the great problems of the Secretary to keep, as nearly as may be, an unchanging total of currency in the Treasury vaults, and neither withdraw from the circulating medium in active use great quantities of currency when income is excessive nor suddenly add to the currency in circulation when the Government has great payments to make in excess of its daily income. The problems of that character were unusually frequent and difficult during Secretary Gage's administration. The successful settlement of the Pacific Railroad indebtedness brought a payment of \$58,000,000 to the Treasury in December, 1897, just at a period of most active commercial demand and when the withdrawal of so much currency would have been disastrous to reviving business. A few months later came the sudden expenditures resulting from the \$50,000,000 appropriation

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made by Congress at the beginning of the Spanish War, and soon after that were poured into the Treasury the proceeds of \$200,000,000 of Spanish War Bonds. Twice during the administration issues of Government bonds matured, and payment of many millions had to be made on that account. This period was the most remarkable since the Civil War for violent fluctuations in the Treasury's balance, and it is one of the best evidences of genius in the administration of the Department at that time that the stock of money actually in the Treasury vaults, in spite of this period of irregular income and expenditure, was always kept at comparatively the same level, and Treasury operations were not permitted seriously to affect the currency of the country.

It is such problems as these which a Secretary of the Treasury must always find recurring, so long as our present Sub-treasury system is maintained, and the best evidence of ability on the part of a Secretary is that these sudden influxes of funds or exceptional expenditures are handled so that the public has no reason to recognize the intimate relation which must exist under present conditions between the Treasury and the banking situation.

With a currency system which has largely been the growth of exigency rather than of

forethought, there is always a desire for legislation which will bring the country's currency into line with sound economic principles. Both the country and Congress have come to look to the head of the Treasury Department as a natural source for suggestions regarding needed currency and banking legislation, and one of his most important duties is the preparation of that portion of his annual report to Congress, which contains recommendations of such character. That has been true particularly during those recent years in which fundamental currency discussion has been so prominent in political affairs, and during which there has been formulated legislation which is an important part of the groundwork of our financial system. It requires a wide range of ability to pass easily from the innumerable practical problems of executive administration which the Treasury presents, to the writing of State papers given to theoretical and economic discussion of some of the subtleties of finance and currency. The annual reports of the heads of the Treasury Department for many years, however, show that we have been fortunate in having men of such breadth of ability that they could do this and do it well.

Not only must the Secretary successfully grasp theoretical problems in finance and

be capable of building up in his message to Congress sound recommendations for financial legislation, but he has to face a much more trying ordeal when he is invited to appear before either the Senate Finance Committee or the House Committee on Banking and Currency — a thing which is usual whenever important financial legislation is under consideration. It is a comparatively easy matter, with ample time and good counsel, to evolve satisfactory recommendations for legislation, but it is far more difficult to advocate those recommendations in an inquiry by ingenious and hostile members of a Congressional Committee. Any one who has studied the proceedings of Senate or House Committees when prominent business men have been brought before them to express their views upon financial legislation must have been struck by the lamentable showing which some of the most prominent financiers may make under a fire of questions from keen-witted and experienced members of this committee. Men who are rulers in practical finance are frequently unable to hold their own in anything like creditable shape in a discussion of fundamental financial measures which it may be proposed to enact into law.

English Cabinet Members must appear in Parliament to answer interpellations, but

notice of the question is given the day before and a member of the Cabinet has ample time to confer and to study his answer, and he may even decline for state reasons to make any answer, if he sees fit. Our own Finance Minister is put in a much more difficult position, however, when he appears before a Congressional Committee. He knows only the general line that the inquiry will take. If he is called before the Banking and Currency Committee, he faces seventeen members, of whom a large minority are politically hostile and who are thoroughly trained in the art of asking difficult questions. His answers become a part of the published records, and he is placed in a position where, if he is to make a satisfactory showing, he must reply off-hand to any question that is propounded by any member of the committee. To go through such an ordeal with satisfaction needs thorough understanding of the subject and readiness of comprehension and retort.

The most important bureau in the Treasury Department is the one charged with the duty of collecting the customs. Not only must this bureau, in order that there shall be no smuggling, keep a watchful eye upon 15,000 miles of coast, a northern frontier more than three thousand miles long, and a southern boundary stretching

the full breadth of Mexico, but it is charged with the administration of the most intricate tariff schedule, requiring not only fidelity and integrity where vast sums are concerned, but great expert knowledge in regard to commodities and the keenest intelligence in the application of that knowledge. The great work of this bureau is, of course, in the collection of the customs levied on regularly imported merchandise, and that work goes on with little criticism and without much friction. Another phase, the collection of duties on articles brought home by returning travellers, is comparatively insignificant in point of income, but to a large number of citizens it is the one point of contact which they have with the Department, and it not infrequently leaves them ready to condemn and upbraid. One of the difficulties in this part of the administration lies in the palpable fact that it is not easy to obtain a corps of inspectors, when Congress limits their salaries to four dollars a day, who will serve long hours at trying duties, always maintain their equanimity, and be courteous in the face of much provocation to be otherwise, and always retain their integrity and repel efforts to corrupt them made by people occupying positions of high standing and respect in the community. Under President McKinley's administration it was determined

to make the enforcement of the law, as it applied to returning travellers, much more rigid than had been the case, and the stricter enforcement which has since been in vogue has led to more criticism of the Treasury, probably, than has any other phase of its affairs.

In the minds of most people a customs law seems to be quite unlike other laws. It is a statute which it is more or less of a credit to evade, and methods of false witness and bribery may be brought to bear without troubling the traveller's conscience. It is this peculiarity of human nature that makes the task extremely difficult. There is much complaint about the Treasury treating returning travellers as if their word was not to be trusted, and submitting their baggage to search after sworn declaration has been made. Brief experience, from the inside, with this part of the Treasury administration will convince one how necessary such an attitude is. As an illustration of that statement, the case might be cited of fifteen prominent citizens of New York City who went abroad two or three years ago, and, on their return, all submitted sworn statements in regard to the contents of their trunks. Twelve declared they had no dutiable articles, and the remaining three paid an aggregate of \$538. The next year the

same fifteen citizens made their annual European pilgrimage and, on their return, were met by the stricter administration of the same law. In addition to their sworn declaration their baggage was carefully examined, with a result that they paid over \$34,000 of duty. Is it small wonder that, after endless experiences, of which the foregoing is but an average illustration, a strictness of inspection should be put in force which is galling to men who have both honor and good memories and make out correct schedules of their purchases when they give their sworn declaration to a customs inspector?

In the administration of the customs there have undoubtedly been men who were not true to their oath of office and have accepted bribes. A considerable number of inspectors have at one time or another been summarily dealt with for such offence. In the handling of the vast sums of money which are a part of the Treasury's operations, there have, in very rare cases, been instances of petty pilfering. Taken by and large, however, the Treasury Department is a splendid great commercial machine, administered with an integrity reaching all the way from the head of the Department through the whole army of its thousands of subordinates, an integrity of which the country

may well be proud. Everywhere in the administration the interests of the Government are paramount to all else.

The good faith and integrity of administration may meet with assault from political pressure; there may be men who seek by bribery to influence political action; there may be brought to bear all the wiles and ingenious methods which great pecuniary interests can evolve, but the Treasury withstands such assaults and is a clean, upright, honestly administered organization, with the interests of the Government always foremost. No one can become intimately familiar with its operation without respect for its integrity. There are men in the organization whose names never reach the public, but whose careers have been models of efficiency, intelligence, and probity. Some of those names it is an honor to mention, for the men have, with small compensation, given to the Department years of service of a character which has made success comparatively easy to a long line of Secretaries, and always through one administration after another have given devoted service to the Department and its changing head. Such men are A. T. Huntington, the head of the Loans and Currency Division, a man whose sound judgment has been a support to every Secretary for a generation; W. F. Mac-

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Lennan, who, as the head of the Division of Bookkeeping and Warrants, has rendered services of such distinguished character that Congress has attached extra compensation to this position so long as he may hold it; Major J. F. Meline, who, as Assistant Treasurer of the United States, has most largely carried the responsibility for the safe custody of the vast sums of currency in the Treasury vaults, and whose integrity is as undoubted as that of any vault the Government possesses; C. N. McGroarty, who, under a succession of Registers of the Treasury, has been largely responsible for the conduct of that important office in a way to leave no doubt of the absolute accuracy of its work; Thomas E. Rogers, who, almost since the organization of the national banking system, has been in charge of the Bureau of Bank-note Redemption, and through whose hands have passed \$2,000,000,000.

The list might be much extended. There are many men in the service whom it is an honor to know, men whose character, fidelity, and intelligence, massed together, make the great Treasury machine what it is — a Department of the Government of which the people of the United States should be unreservedly proud.

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